



2004 ANNUAL REPORT

January 17, 2005

Dear valued Shareholders

I am pleased to present the Corporation's annual Financial Statements and Management Discussion and Analysis for the year ended September 30, 2004.

As you know, when Patrick Devlin and I joined Proprietary in January 2003, the Company faced a significant debt load, a portfolio of assets that, while generating revenue, could not service the debt taken on to acquire them, an accumulation of losses by the Alberta Securities Commission (ASC) and court orders to file provisions, extensive litigation and a liquidity crisis. The Corporation had to start legal action against its former President and CEO.

Significant steps were taken in 2003 to resolve these issues, and continuous efforts continued successfully throughout 2004. As a result, in the Spring of 2004 we were able to refinance the debt on our side and other strategic initiatives. Under the supervision of a Special Committee, which was formed in March 2004, Alliance Pacific Corp. ("APC") was acquired, an acquisition of strategic interest for the Corporation. Beginning in April 2004, APC commenced wind-down of over 150 operating institutions, corporations and other parties. Identifying the potential for a transaction with the Corporation. As a result of this process, the Corporation entered into a series of agreements with several parties, which parties were then provided with selected information regarding the Corporation.

Of the parties with which the Corporation entered into non-disclosure agreements, one party was provided with access to select items concerning assets and liabilities of the Corporation. This party, through, submitted suggestions of interest. This process ultimately resulted in a competitive process and a cash offer of \$20 million, which

In addition to this process, a number of other significant steps were taken by the Corporation in 2004. Some of the highlights for 2004 are listed below:

- October 2003: Proprietary filed suit against its former president, the late A. Carey, for \$1.2 million.
- November 2003: The court received partial relief from Carey's order.
- March 2004: As required by court order, the Board of Directors issued a statement of intent, plus a single option and other items, to purchase the Corporation.
- April 2004: A subsidiary secured payment of a promissory note payable to the Corporation, and was awarded \$1.5 million.
- April 2004: Proprietary completed sale of Enbridge 56, which Laidlaw and others, through, acquired.
- May 2004: The court ruled in favour of the Corporation, and the court ordered the liquidation of the Corporation and the sale of its assets.
- July 2004: The court received a cash offer of \$20 million, which was accepted by the Corporation.



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January 17, 2005

To our valued Shareholders:

I am pleased to present the Corporation's audited Financial Statements and Management Discussion and Analysis for the year ended September 30, 2004.

As you know, when Patrick Lavelle and I joined Proprietary in January 2003, the Company faced a significant debt load; a portfolio of assets that, while generating revenue, could not service the debt taken on to acquire them; an enforcement action by the Alberta Securities Commission (ASC); cease-trade orders in five provinces; extensive litigation; and a liquidity crisis. The Corporation had also taken legal action against its former President and CFO.

Significant steps were taken in 2003 to resolve these issues, and resolution efforts continued successfully throughout 2004. As a result, in the Spring of 2004 we were in a position to investigate take-over bids and other strategic initiatives. Under the supervision of a Special Committee, which was formed in March 2004, Alliance Pacific Group (APG) set out to identify an acquiror or strategic partner for the Corporation. Beginning in April 2004, APG forwarded solicitations to over 150 financial institutions, corporations and other parties identifying the potential for a transaction with the Corporation. As a result of this process, the Corporation entered into non-disclosure agreements with twenty parties, which parties were then provided with selected information regarding the Corporation.

Of the parties with whom the Corporation entered into non-disclosure agreements, ten parties were provided with access to a data room containing books and records of the Corporation. Six parties thereafter submitted expressions of interest. This process ultimately resulted in a competitive process and a cash offer of \$0.64 per share.

In addition to this process, a number of other significant steps were taken by the company in fiscal 2004. Some of the highlights for fiscal 2004 are listed below:

October 2003	Proprietary files suit against its former auditors, Hudson & Company, LLP.
November 2003	Proprietary receives partial relief from cease trade order.
March 2004	In response to unsolicited offers, the Board forms a special committee to investigate strategic options and solicit buyers or partners for Proprietary.
April 2004	A subsidiary secures payment of a promissory note previously in default; net proceeds exceed \$US16 million.
April 2004	Proprietary completes sale of Kananskis Mountain Lodge and repays overdue mortgage loan.
May 2004	The cease trade orders are lifted and Proprietary resumes trading on the Toronto and Swiss Stock Exchanges.
July 2004	Proprietary completes sale of Eau Claire Festival Market and retires Proprietary's debt on the property.

- September 2004 The Board announces a transaction with Quest Capital Corp. and receives a competitive offer from Northern Financial Corporation.
- October 2004 The Board announces the execution of a Support Agreement with PPI Acquisition Corp. (PAC) and an offer for all shares of Proprietary at \$0.64 in cash.
- December 2004 Proprietary settles a lawsuit related to litigation involving United Industrial Services for \$1.79 million, less than half of what had been claimed by the plaintiff.
- December 2004 59% of shareholders tender their shares to the bid by PAC. Northern revises its bid and offers to acquire up to 10% of Proprietary shares (in addition to the 9.9% already held by Northern) in exchange for shares of Northern.

On behalf of the Company and its shareholders, I would like to extend my sincere thanks to Patrick Lavelle and William Ostrander who will retire from the Board at the upcoming annual meeting. Patrick and Bill both played a "hands on" role in the Company's turnaround and deserve much of the credit for the resolution of Proprietary's difficulties and the successful completion of the PAC transaction in December.

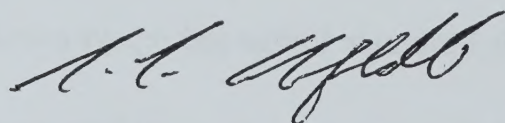
Following the Annual and Special Meeting, it is expected that Robert D. Cudney and Frank L. Davis will be joining Murray Sinclair and me as directors of the Corporation. Mr. Cudney is President of Northfield Capital Corporation, a public investment company and President and CEO of PAC. He is also a director of a number of public and private companies. Mr. Davis is a partner at the law firm of Fraser Milner Casgrain LLP in Toronto and practises principally in the areas of corporate finance, mining and mergers and acquisitions. We look forward to their contributions.

Our first order of business after the Annual and Special Meeting will be to finalize and implement a long-term strategy for the Corporation. In fiscal 2005, we will continue our efforts to pursue outstanding lawsuits and we will continue to evaluate new investment and lending opportunities in order to earn greater returns on our capital.

It has been a pleasure to serve as an officer and director on your behalf.

Yours truly,

On behalf of the Board of Directors,



Stephen C. Akerfeldt
Chief Executive Officer

PROPRIETARY INDUSTRIES INC.
Management Discussion and Analysis
For the year ended September 30, 2004

This Management Discussion and Analysis was prepared as of December 21, 2004 and should be read in conjunction with the Consolidated Financial Statements and Notes thereto, which have been prepared in accordance with Canadian generally accepted accounting principles. Additional information relating to Proprietary Industries Inc. is available on SEDAR at <http://www.sedar.com>. This Management Discussion and Analysis may contain forward looking statements and information. Forward looking statements are statements that are not historical fact and are generally identified by words such as "believe", "expects", "projects", "could" or similar words suggesting future outcomes. By their nature, forward-looking statements and information involve assumptions, inherent risks and uncertainties, many of which are difficult to predict and are usually beyond the control of management, that could cause actual results to be materially different from those expressed by these forward looking statements and information. Risks and uncertainties include, but are not limited to, risk with respect to general economic conditions, property values, regulations and taxes, civil unrest, corporate restructuring and related costs, capital and operating expenses, pricing and availability of financing, and exchange rate fluctuations. Readers are cautioned not to place undue reliance on these forward looking statements and information.

The Company does not undertake to update or re-issue the forward-looking statements and information that may be contained herein, whether as a result of new information, future events or otherwise.

OVERVIEW

Proprietary Industries Inc. ("Proprietary" or the "Company") is a principal merchant bank involved in a wide array of investments and businesses. Its operations include: investing, managing, purchasing, selling, owning and lending. The Company is listed on both the Toronto and Swiss Stock Exchanges under the trading symbol "PPI".

The Company started fiscal 2004 burdened by a number of issues from prior years. The highlights of 2004 were the resolution of most of these issues.

2004 Highlights

- lifting of the cease trading orders on the Company's common shares in May 2004.
- collection of two large notes receivable that generated cash receipts in excess of \$20 million.
- elimination of the large working capital deficiency.
- disposition of those assets/businesses that did not generate a positive cash flow after debt servicing, thereby eliminating the drain on the Company's cash reserves.
- repayment of virtually all secured debt.
- repayment of a high interest rate loan.
- resolution of a number of lawsuits in a favourable manner to the Company.
- creation of a large cash position from which the Company can move forward with new investment strategies.
- the formation in March 2004 of a Special Committee of the Board of Directors to assess strategic avenues available to the Company.

The foregoing were achieved through the substantial efforts of the Company's management and staff, direction from the Board of Directors, and assistance from APG Capital Services Corp. Furthermore, these efforts resulted in the Company being attractive to new investors and on December 6, 2004 PPI Acquisition Corp ("PAC") announced its intention to take up the shares (representing approximately 59% of the issued and outstanding Proprietary common shares) that had been deposited pursuant to its October 29, 2004 offer to Proprietary shareholders. This resulted in those shareholders who tendered their Proprietary shares to the PAC offer receiving \$0.64 per share, representing a premium of 52.38% over the closing price of Proprietary common shares immediately prior to the first public announcement of a transaction involving the sale of Proprietary.

PROPRIETARY INDUSTRIES INC.
Management Discussion and Analysis
For the year ended September 30, 2004

For the year ended September 30, 2004 the Company generated a net income of \$6,867,752. However, this performance includes a number of events (discussed under "Results of Operations") that will not be repeated in future years, and therefore the Company must look to new sources of revenues and continue to trim overheads in order to generate net income in future years. These aforesaid events include the disposition of a considerable number of assets and the collection of two large notes receivable in fiscal 2004. As these specific transactions cannot be repeated, new investments will have to be undertaken in order to generate positive cash flow. The Company's cash position at September 30, 2004 will allow it to rejuvenate itself as a merchant bank and pursue new investment opportunities.

	2004	2003	2002 (unaudited)
Revenues	\$ 12,790,055	\$ 30,228,038	\$ 65,138,689
General and administrative expenses	6,580,052	13,270,949	20,345,940
Other expenses	715,557	24,001,986	37,279,541
Interest	389,265	4,302,894	9,457,288
Amortization and depreciation	322,772	2,740,438	7,269,463
Write-downs	3,950,050	6,444,436	75,163,192
Recovery of prior write-downs	(5,423,455)	(837,119)	-
Total expenses	\$ 6,534,241	\$ 49,923,584	\$ 149,515,424
Net income (loss)	\$ 6,867,752	\$ (18,882,712)	\$ (81,986,549))
- per share - basic	0.12	(0.32)	(1.38)
- per share - diluted	0.12	-	-
Net income (loss) – continuing operations	\$ 6,367,502	\$ (13,766,338)	\$ (81,986,549)
- per share - basic	0.11	(0.23)	(1.38)
- per share - diluted	0.11	-	-
Total assets	\$ 39,747,363	\$ 114,680,340	\$ 185,129,107
Long-term debt	\$ 605,200	\$ 30,371,950	\$ 99,672,173
Discontinued operations:			
Revenues	\$ 10,014,933	\$ 47,238,351	\$ 40,978,084
Net income (loss) before gain/loss on disposition	\$ (3,449,444)	\$ (11,437,392)	\$ (14,862,474)

Since March 2002, the Company has been on a debt-driven program of rationalizing its investments and assets. A significant proportion of its investments were non-performing and most assets were not generating positive cash flow after debt servicing. Accordingly, the Company has disposed of most of these assets and therefore its consolidated financial statements for each fiscal year reflect: lower total assets and long-term debt, decreasing revenues, an increasing number of discontinued operations, increasing net income (lower losses), and better overall cash flow. The table above reflects the reported results for each of the respective years, with the exception of the fiscal 2003 and 2002 revenues and net income (loss) under the caption "Discontinued operations", which reflect the amounts that relate to the same discontinued operations included as discontinued operations for fiscal 2004 as though they had been discontinued in each of those respective fiscal years.

PROPRIETARY INDUSTRIES INC.
Management Discussion and Analysis
For the year ended September 30, 2004

OPERATING RESULTS

The net income for the year ended September 30, 2004 is \$6,867,752 versus a loss of \$18,882,712 for the year ended September 30, 2003. The Company has been in a restructuring mode since February 2002, primarily due to calls for loan repayment by creditors. This resulted in the disposition of many assets and operating businesses (as fully described in the consolidated financial statements). Consequently, the principal reasons for the differences between the two years relate to the realization, disposition and valuation of its assets, and the related effect on items such as depreciation, interest expense, and gains/losses on disposition. For example, when an asset is disposed, the depreciation, interest expense (assuming it had debt and this was repaid upon disposition), and valuation adjustments are determined and the gain/loss on disposition is calculated, all at the date of disposition. No further revenues and expenses for this asset are recorded after the date of disposition. However, the prior period's comparative figures would still reflect ongoing revenues and expenses, since the asset was not sold until a subsequent period. Therefore, period to period comparisons become difficult.

Included in the fiscal 2004 revenues are some items that will not be recurring and which comprise most of the revenues. These items are: (a) \$2,976,709 from the reversal of the Waterton Lakes Lodge assets and liabilities as a result of the judicial sale of the property; (b) \$1,759,550 relating to the reversal of provisions for anticipated expenses that will not be incurred; and (c) \$5,330,849 resulting from the collection of interest on notes receivable where an impairment allowance existed and therefore interest was not recorded until actually collected (pursuant to the Company's accounting policies). The gain on sale of assets includes \$911,646 pertaining to non-recurring asset sales, while the balance relates to the sale of marketable securities of companies in which the Company still holds shares it intends to sell in the future.

Included in the current year's general and administrative expenses are legal, consulting and staff expenses totaling approximately \$5.3 million. While these expenses are similar to those incurred in 2003, the staff and consulting fees related to operations should be reduced considerably in the future due to lower staff levels and a reduction in the use of consultants. Legal fees continue to be unpredictable due to the amount of litigation facing the Company. Included in September 30, 2004 general and administrative expenses are approximately \$785,000 incurred with respect to the take-over bids made for the Company. Additional significant expenses will be incurred in the first quarter fiscal 2005 relating to this take-over bid process.

The Company took write-downs of \$2,015,630 relating to operations that were discontinued during the year and therefore included in discontinued operations. In addition, the Company took further write-downs of \$3,950,050 relating to: (a) a \$902,989 reduction in the carrying value of the mineral properties in Newmex Minerals Inc. ("Newmex"), a subsidiary of the Company; (b) the \$2,000,000 settlement of a lawsuit, including estimated legal fees; (c) the \$513,233 write-off of its investment in TCS Mortgage Inc.; (d) the \$347,282 reduction in carrying value of its investment in coal bed methane leases; and (e) \$186,546 comprised of the reduction in the carrying value of property, plant and equipment. With respect to the lawsuit settlement, this has been recorded as a write-down as the lawsuit related to the purchase of shares in a company now having no value. While the Company believes that the coal bed methane leases investment will ultimately have some net recoverable value, a value could not be substantiated without considerable expenditures and therefore the write-off was taken in lieu thereof. The write-down relating to the Newmex mineral properties was necessary as a result of Newmex's decision to abandon a number of its mineral properties. The Company did recover \$5,423,455 relating to two notes receivable for which the Company had previously reflected an impairment allowance. The collections on each of these notes receivable were before the courts when a settlement was reached.

The \$500,250 income reflected in fiscal 2004 from discontinued operations arises from the gains on the disposition of the assets, which gains occur as a result of prior write-downs related to the specific property. The exception to this is the disposition of Canadian Rocky Mountain Properties Inc. where the gain on disposition was \$2,496,283.

PROPRIETARY INDUSTRIES INC.
Management Discussion and Analysis
For the year ended September 30, 2004

Summary of Quarterly Results

The summary of quarterly results for the last two years contains those results previously reported. It is difficult to compare each quarter as prior quarterly results are not restated for operations reflected in discontinued operations in future quarters. In the last quarter of fiscal 2004, a number of the variances from the third quarter are the reclassification of revenues and expenses to discontinued operations for operations discontinued in the fourth quarter. In addition, the Company recorded in the fourth quarter the write-downs related to the property, plant and equipment, the coal bed methane leases, the lawsuit settlement, and its investment in TCS Mortgage Inc.

2004:

	Q1	Q2	Q3	Q4
Revenues	2,495,371	6,107,543	2,839,631	3,950,424
General and admin. expenses	1,879,306	1,665,860	1,859,470	1,338,416
Other expenses	1,538,053	536,854	198,787	53,006
Interest	746,106	164,480	45,555	(61,282)
Amortization and depreciation	367,675	36,121	106,717	118,475
Write-downs	1,053,667	-	120,000	3,002,061
Recovery of prior write-downs	-	(5,268,141)	(15,990)	-
Total expenses	5,584,807	(2,864,826)	2,314,539	4,450,676
Net income (loss)	(1,165,025)	7,388,278	289,024	355,475
-per share - basic	(0.02)	0.12	0.00	0.01
-per share - diluted	-	0.12	0.00	0.01
Net income (loss) - continuing operations	(2,539,241)	8,478,856	517,305	(452,058)
-per share - basic	(0.04)	0.14	0.01	(0.01)
-per share - diluted	-	0.14	0.01	-

2003:

	Q1	Q2	Q3	Q4
Revenues	12,303,743	11,923,808	13,074,830	6,730,150
General and admin. expenses	4,837,391	3,124,401	2,546,574	1,368,500
Other expenses	7,990,571	7,224,666	9,274,211	3,079,103
Interest	2,561,961	1,970,674	2,028,122	1,088,244
Amortization and depreciation	1,551,394	1,190,760	1,429,694	574,135
Write-downs	-	-	746,113	5,698,323
Recovery of prior write-downs	-	-	-	(837,119)
Total expenses	16,941,317	13,510,501	16,024,714	10,971,186
Net income (loss)	(5,605,309)	(1,817,963)	(3,096,652)	(8,362,787)
-per share - basic	(0.09)	(0.03)	(0.05)	(0.14)
-per share - diluted	-	-	-	-
Net income (loss) - continuing operations	(5,605,309)	(1,817,963)	(3,096,652)	(3,246,413)
-per share - basic	(0.09)	(0.03)	(0.05)	(0.05)
-per share - diluted	-	-	-	-

PROPRIETARY INDUSTRIES INC.
Management Discussion and Analysis
For the year ended September 30, 2004

Fourth Quarter

The revenues in the fourth quarter increased primarily as a result of: the reversal of the assets and liabilities relating to the Waterton Lakes Lodge (as discussed above under "Operating Results") and the gain of \$1,239,069 realized from the sale of a parcel of land in the U.S. that the Company had received through a settlement of a note receivable. The write-downs discussed under "Operating Results" were taken in the fourth quarter with the exception of \$827,989 relating to the Newmex mineral properties and those relating to and that are reflected in discontinued operations. The discontinued operations include a gain on the sale of land in Bancroft in the fourth quarter of approximately \$854,300. As a result of this sale, the discontinued operations reflected net income of \$807,533 for the fourth quarter, creating a net income for the fourth quarter of \$355,475. Furthermore, the fourth quarter includes approximately \$785,000 in expenses relating to the September 28, 2004 "Offer to Purchase Transaction" circulated to shareholders and the accrual of the APG Financial Services Corp. transaction fee pertaining to the PAC transaction.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company has sufficient cash to meet its present overhead and any cash shortfalls generated from the operations of its remaining assets. The only "long-term debt" obligation Proprietary has are the mortgages on its McGinty Landing condominium units, which at September 30, 2004 had a total principal balance outstanding of \$605,200. While the Company anticipates favourable outcomes in its various lawsuits, there are no assurances of this and therefore its present cash position could be eroded by any unfavourable decisions and the costs to appeal, defend, and pursue these lawsuits.

CONTRACTUAL OBLIGATIONS

The Company has entered into various commitments relating to debt, management and consulting agreements, a land lease, and the reimbursement of expenses relating to a take-over bid by PPI Acquisition Corp. The following table summarizes the Company's contractual obligations at September 30, 2004:

	Payments Due By Period				Total
	< 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years	
Long-term debt	\$ 605,200	-	-	-	\$ 605,200
Notes payable	892,489	-	-	-	892,489
Land lease payments	48,000	96,000	96,000	360,000	600,000
Management and consulting agreements	106,000	120,000	-	-	226,000
Other	450,000	-	-	-	450,000
Total contractual obligations	\$ 2,101,689	216,000	96,000	360,000	\$ 2,773,689

Pursuant to the October 22, 2004 Support Agreement between Proprietary and PAC, Proprietary agreed to reimburse PAC's reasonable out-of-pocket fees and expenses incurred in connection with matters contemplated by the Support Agreement, up to a maximum amount of \$450,000 plus GST. This commitment is included in the above table under "Other" notwithstanding the commitment occurred subsequent to September 30, 2004 as PAC was successful in its bid offer.

The land lease payments relate to the operation of the Company's Thunder Bay Golf Dome, which lease has provisions for early termination and negotiated rent increases. The figures included in the above table assume no early termination of the land lease and no rent increases.

With the payment to APG Capital Services Corp. of the \$46,000 reflected in the above table under "Management and consulting agreements" and the payment of \$236,000 relating to the transaction fee due with respect to the December 6, 2004 PAC transaction, the services of APG Capital Services Corp. were terminated on December 6, 2004.

PROPRIETARY INDUSTRIES INC.
Management Discussion and Analysis
For the year ended September 30, 2004

RELATED PARTY TRANSACTIONS

During fiscal 2004 the Company repaid loans (including interest) from CPV/CAP COOP Personalversicherung, Pensionskasse der Coop Gruppe and SPIDA, both shareholders in the Company. The loans of US \$3,000,000 and US \$578,750 respectively were advanced to the Company in prior years and bore interest at 9% and 7% respectively.

For the year ended September 30, 2004 the Company was charged \$491,395 by the directors of the Company for director fees and services. Included in this amount is \$150,000 in director bonuses relating to the PAC transaction described earlier, which bonuses were accrued at September 30, 2004 but not paid until December 6, 2004.

The Company provides administrative services to various subsidiary companies, for which it charges no fees or nominal fees, which amounts are eliminated for accounting purposes upon the consolidation of the subsidiaries' results.

RISK MANAGEMENT

The Company's results are impacted by the market risks associated with foreign currency exchange rates, the market price of its investments in public company shares, the environmental risks related to its subsidiary company's investments in mineral properties, the interest rates applicable to its short-term cash deposits, and the various lawsuits involving the Company. Most of these risks involve variables beyond the Company's control. The Company does not utilize derivative instruments to hedge its foreign exchange or its interest rates risks. The subsidiary's mineral properties are not operating, so any environmental risks are being mitigated.

CRITICAL ACCOUNTING ESTIMATES

The Company's critical accounting estimates are defined as those estimates that have a significant impact on the portrayal of the Company's financial position and operations and that require management to make judgements, assumptions and estimates in the application of Canadian generally accepted accounting principles. Judgements, assumptions and estimates are based on historical experience and other factors that management believes to be reasonable under current conditions. As events occur and additional information is obtained, these judgements, assumptions and estimates may be subject to change. We believe the following are the critical accounting estimates used in the preparation of the Company's September 30, 2004 consolidated financial statements.

a) Valuations and Provisions for Impairment

Management regularly reviews the carrying value of its assets in relation to the potential net recoverable value of those assets. In determining recoverable value, it utilizes acceptable valuation approaches relative to the respective asset, such as estimated recoverable value through cash flows from the asset, comparable prices for assets of similar status, and market quotes for stocks in publicly traded companies. Where the potential net recoverable value is estimated to be less than its carrying value or the carrying value cannot be substantiated, a write-down or impairment provision is made. Where loans have been made by the Company and the probability of collection of the funds within a reasonable time is unlikely, the Company takes an impairment provision.

b) Income Tax

The Company has consolidated non-capital loss carry-forwards for tax purposes of \$65.2 million in Canada and US \$23.4 million in the U.S. and mineral property tax pools of \$3.6 million. These have not been recognized as a tax asset in the September 30, 2004 consolidated financial statements, as the Company does not believe that it can demonstrate that it is more likely than not that it will utilize these tax benefits against future taxable income during the carry forward periods.

PROPRIETARY INDUSTRIES INC.
Management Discussion and Analysis
For the year ended September 30, 2004

c) Litigation

The Company is involved in a significant number of lawsuits, both as the plaintiff and as the defendant, the outcomes of which cannot be determined at this time. As such these lawsuits represent contingent assets and liabilities.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares, and an unlimited number of preferred shares. The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series. At September 30, 2004 there were 59,835,356 common shares and no preferred shares outstanding. The Company issued no common shares and no preferred shares and no options to purchase common shares during the year ended September 30, 2004.

On September 28, 2004 the Company offered to purchase for cash up to 40,000,000 of its common shares at a price of \$0.60 per common share and immediately thereafter issue 14,958,838 common shares at a price per common share of \$0.60 through a private placement. This purchase and issue of common shares in the Company was conditional upon the completion of the transactions contemplated in the September 9, 2004 Subscription and Support Agreement between the Company and Quest Capital Corp. This aforesaid agreement was subsequently terminated and as a result, no common shares of the Company were purchased or issued.

On November 15, 2004 the Shareholders Rights Plan was waived by the Company in connection with the proposed take-over bids for the Company.

OUTLOOK

The Company will continue in its drive to: (a) collect amounts previously advanced to various parties, be it through the courts or otherwise, (b) simplify its corporate structure, (c) seek a remedy for those few remaining assets that are not generating a sufficient return on investment, and (d) resolve its litigation and other disputes in a timely and effective manner.

The Company is now positioned to move forward by re-establishing itself as a prominent merchant bank with a more rational investment strategy. New investment policies will have to be established in order to best deploy the Company's resources. The announcement on December 6, 2004 of PAC's intention to take up the shares that had been deposited pursuant to its October 29, 2004 offer to Proprietary shareholders and the subsequent take-up of these shares by PAC and others, is regarded as very positive for the Company. In the new year, the Board of Directors will again conduct a detailed review of the Company, including its management and personnel, to determine whether further changes are desirable.

The Company intends to continue to operate as a public company and merchant bank. It will carry on with exploring proposals, transactions and other strategic alternatives designed to maximize shareholder value.

PROPRIETARY INDUSTRIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2004 and 2003

AUDITORS' REPORT

To the Shareholders of
Proprietary Industries Inc.

We have audited the consolidated balance sheets of Proprietary Industries Inc. as at September 30, 2004 and 2003 and the consolidated statements of earnings, deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether these financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in these financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the presentation of overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Proprietary Industries Inc. as at September 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Mintz & Partners LLP

Toronto, Ontario
December 13, 2004

CHARTERED ACCOUNTANTS



A member of Collichs Barrow Canada
and Moores Rowland International,
associations of independent accounting
firms throughout the world

PROPRIETARY INDUSTRIES INC.

Management's Report

The accompanying Consolidated Financial Statements of Proprietary Industries Inc. and related financial information presented in this annual report are the responsibility of Management. The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements and related financial information reflect amounts which must, of necessity, be based upon informed estimates and judgements of Management with appropriate consideration to materiality. All financial information contained in the annual report is consistent, where appropriate, with that contained in the Consolidated Financial Statements.

The Company has developed and maintains systems of internal controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguard of assets.

Mintz & Partners LLP, independent external auditors appointed by the shareholders of the Company, review Proprietary Industries Inc.'s systems of internal controls and conduct their work to the extent they deem appropriate. They have examined the Consolidated Financial Statements and they have expressed an opinion on the statements. Their report is included in the Consolidated Financial Statements.

The Board of Directors has established an Audit Committee. The Audit Committee reviews with Management and the external auditors any significant financial reporting issues, the financial statements, and any other matters of relevance to the parties. The Audit Committee meets quarterly to review and approve the interim financial statements prior to their release, as well as annually to review the Company's annual financial statements, Management's discussion and analysis, and the Annual Information Form, and to recommend their approval to the Board of Directors. The external auditors have unrestricted access to the Company, the Audit Committee and the Board of Directors.

"signed"
Stephen C. Akerfeldt
Chief Executive Officer

"signed"
William H. Berezan
Chief Financial Officer

PROPRIETARY INDUSTRIES INC.

Consolidated Balance Sheets			
As at September 30		2004	2003
Assets			
Current			
Cash and short-term deposits	\$	30,105,300	\$ 4,843,425
Mortgage loans held for resale		-	3,017,691
Short-term investments		632,081	1,091,889
Accounts receivable		413,903	1,085,171
Inventories (Note 8)		45,824	919,033
Prepaid expenses and deposits		72,881	800,762
Assets held for disposal by sale (Note 14)		654,964	38,373,526
Assets held for disposal by other than sale (Note 13)		-	2,885,532
		<u>31,924,953</u>	<u>53,017,029</u>
Notes receivable (Note 6)		1,057,277	16,584,092
Restricted cash deposits (Note 7)		5,000,000	895,797
Land development costs (Note 9)		-	637,616
Property, plant and equipment (Note 10)		963,382	42,234,973
Investments (Note 11)		801,751	1,233,827
Other assets		-	77,006
	\$	<u>39,747,363</u>	\$ <u>114,680,340</u>
Liabilities			
Current			
Accounts payable and accrued liabilities	\$	4,701,682	\$ 10,448,511
Bank indebtedness (Note 15)		-	2,504,689
Notes payable (Note 16)		892,489	3,991,351
Due to related parties (Note 4)		-	4,844,196
Customer deposits		5,155	504,979
Income taxes payable		140,396	853,568
Current portion of long-term debt (Note 17)		605,200	30,361,281
Deferred revenue		2,022	731,480
Obligations related to assets held for disposal by sale (Note 14)		-	27,051,164
Obligations related to assets held for disposal by other than sale (Note 13)		-	5,862,241
		<u>6,346,944</u>	<u>87,153,460</u>
Long-term debt (Note 17)		-	10,669
Future income taxes (Note 22)		-	368,992
Non-controlling interest in subsidiaries		1,769,509	2,384,061
		<u>8,116,453</u>	<u>89,917,182</u>
Shareholders' Equity			
Share capital (Note 18)		142,319,358	142,319,358
Contributed surplus (Note 19)		15,530,208	15,530,208
Deficit		(126,218,656)	(133,086,408)
		<u>31,630,910</u>	<u>24,763,158</u>
	\$	<u>39,747,363</u>	\$ <u>114,680,340</u>

Litigation and Contingencies (See Note 25)

Approved (see Note 2) on behalf of the Board:

"signed"

Stephen C. Akerfeldt, Director

"signed"

Patrick J. Lavelle, Director

PROPRIETARY INDUSTRIES INC.

Consolidated Statements of Earnings and Deficit

For the years ended September 30

2004

2003

Revenue

Rental	\$	41,023	\$	41,907
Finance		5,330,849		49,933
Recreation		489,601		88,003
Automotive		-		1,657,322
Interest		245,900		816
Gain on sale of assets		1,531,124		338,732
Investment and other		5,151,558		705,051
		<u>12,790,055</u>		<u>2,881,764</u>

Expenses

Rental		60,693		64,741
Finance		-		-
Recreation		654,864		59,779
Automotive		-		1,717,580
General and administrative		6,580,052		6,339,871
Depletion and amortization		322,772		430,075
Interest		389,265		1,772,414
Write-downs (Note 20)		3,950,050		1,827,541
Recovery of prior write-downs (Note 20)		(5,423,455)		(837,119)
		<u>6,534,241</u>		<u>11,374,882</u>

Income (loss) before income taxes, non-controlling interest, and discontinued operations

6,255,814 (8,493,118)

Income taxes (recovered)(Note 22)

Current	(32,326)	(85,722)
Future	-	-
	<u>(32,326)</u>	<u>(85,722)</u>

Non-controlling interest in subsidiaries

(79,362) -
(111,688) (85,722)

Net income (loss) for the year from continuing operations

6,367,502 (8,407,396)

Discontinued operations, net of income taxes (Note 21)

500,250 (10,475,316)

Net income (loss) for the year

6,867,752 (18,882,712)

Deficit, beginning of year (Note 26)

(133,086,408) (114,203,696)

Deficit, end of year

\$ (126,218,656) **\$ (133,086,408)**

Earnings (loss) per share – basic

\$ 0.12 **\$ (0.32)**

Earnings (loss) per share – diluted

\$ 0.12 **\$ -**

Earnings (loss) per share from continuing operations – basic

\$ 0.11 **\$ (0.14)**

Earnings (loss) per share from continuing operations –diluted

\$ 0.11 **\$ -**

Weighted average number of common shares used in computing earnings (loss) per share, basic and diluted

59,835,356 59,835,356

PROPRIETARY INDUSTRIES INC.

Consolidated Statements of Cash Flows

For the years ended September 30	2004	2003
<i>Cash flows provided by (used in)</i>		
Operating activities		
Net income (loss)	\$ 6,867,752	\$ (18,882,712)
Items not involving cash		
Depletion and amortization	1,307,561	5,303,459
Future income taxes recovered	(6,341)	12,480
Gain on sale of assets and investments	(4,697,045)	(1,352,546)
Write-downs	5,965,680	7,607,317
Non-controlling interests	(79,362)	231,067
Interest capitalized to debt	-	1,196,800
Foreign exchange gain	(686,087)	(992,325)
Non-cash items in other income	(5,535,726)	-
	<u>3,136,432</u>	<u>(6,876,460)</u>
Changes in non-cash operating balances (Note 27)	<u>(6,954,698)</u>	<u>(1,993,102)</u>
	<u>(3,818,266)</u>	<u>(8,869,562)</u>
Financing activities		
Decrease in long-term debt, net	(31,369,611)	(10,673,470)
Issue of common shares by subsidiary	-	87,686
Borrowings from (repayments to) related parties	(4,746,620)	4,629,000
Repayment of notes payable	(3,104,443)	(6,134,266)
	<u>(39,220,674)</u>	<u>(12,091,050)</u>
Investing activities		
Collection of notes receivable, net	12,200,052	2,087,529
Proceeds on sale of investments, net	1,164,079	6,166,939
Proceeds on sale of land, net	4,479,031	896,718
Proceeds on disposition of property, plant and equipment	59,170	1,148,998
Additions to property, plant and equipment	(57,140)	(1,563,121)
Net cash proceeds on business dispositions	50,455,623	8,838,116
	<u>68,300,815</u>	<u>17,575,179</u>
Increase (decrease) in cash for the year	25,261,875	(3,385,433)
Cash, beginning of year	4,843,425	8,228,858
Cash, end of year	\$ <u>30,105,300</u>	\$ <u>4,843,425</u>

The following cash payments have been included in the determination of earnings.

Interest paid	\$ 2,100,945	\$ 8,607,479
Taxes paid	\$ 106,908	\$ 55,180

**PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003**

1. NATURE OF OPERATIONS

The accompanying consolidated financial statements of Proprietary Industries Inc. (the "Company" or "Proprietary") include the financial position, results of operations, and cash flows for the Company and its subsidiaries as indicated below;

Proprietary Developments Ltd.	100%	EnergCorp Acquisitions Inc.	100%
970322 Ontario Inc. (Thunder Bay Golf Dome)	100%	Strategia Corporation	97%
Newmex Minerals Inc.	57%	EnergCorp Inc.	91%
		AV Sport Inc.	91%
		American Home Capital Corporation	86%
		Swiss Asset Management Inc.	86%

Not included in the above list are: (a) companies whose balance sheets and results of operations are not material to the organization, (b) companies whose operations have been disposed of during the current year and therefore their results of operations have been reflected in discontinued operations (refer to Note 21), and (c) companies for which the Company lost control (through insolvency or otherwise) or access to their cash flow.

Proprietary is a company listed and traded on the Toronto and Swiss Stock Exchanges under the trading symbol PPI. The Company operates as a merchant bank and accordingly, it is engaged in various businesses and holds a variety of investments. The resolution of most of the issues disclosed in the Company's fiscal 2003 annual report and subsequent interim reports has resulted in a reduction in the nature, quantity and variety of the Company's past operations, assets, and debt obligations.

2. PRIOR YEARS FINANCIAL STATEMENTS

Due to the investigation commenced by the Alberta Securities Commission into the Company's financial reporting and the conduct of Mr. Peter Workum, its former Chief Executive Officer, and Mr. Theodor Hennig, its former Chief Financial Officer, the Company's former auditors, Hudson & Company LLP ("Hudson"), withdrew their opinions on the Company's 1998 – 2001 (inclusive) fiscal years financial statements. Current management attempted to cooperate with Hudson in order to facilitate the provision of a new opinion on the financial statements for the year ended September 30, 2001. It was determined, however, that the impact of the restatements was of such significance that this would not only be impractical from a cost and timing viewpoint but potentially impossible to obtain. Mintz & Partners LLP ("Mintz"), the auditors that replaced Hudson, could provide an audit opinion on the September 30, 2002 consolidated balance sheet but Mintz could not provide an audit opinion on operations and cash flow statements for the year ended September 30, 2002. Management has commenced an action against Hudson (see Note 25).

The Company's present directors and Chief Financial Officer were appointed subsequent to the initiation of the investigation and withdrawal of audit opinion described above, and accordingly they were not involved in the affairs of the Company relating to the investigation and withdrawal of audit opinions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) PRINCIPLES OF CONSOLIDATION

The financial statements of entities which are controlled by the Company, referred to as subsidiaries, are consolidated. Entities which are not controlled and for which the Company has the ability to exercise significant influence over are accounted for using the equity method. Investments in other entities are accounted for using the cost method.

(B) FOREIGN CURRENCY TRANSLATION

The Company utilizes the temporal method of accounting for foreign currency transactions and financial statements of its subsidiaries. Under the temporal method, monetary assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities are translated at the historical exchange rates, except those items carried at market, which are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rate for the period, except for charges related to non-monetary assets which are translated at the historical rate for the asset to which the charge relates, and material items where a specific date can be identified for the transaction which is translated at the rate on that specific date. Exchange gains or losses are reflected in net earnings. The Company regularly reviews whether its subsidiaries should be treated as self-sustaining or integrated with the parent company. At September 30, 2003 and 2004 it has determined that its subsidiaries should be reported as integrated.

(C) CASH

Cash and cash equivalents includes cash on hand and short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(D) SHORT-TERM INVESTMENTS

Short term investments are recorded at the lower of cost or market value. Market value is defined as the trading value at the date of the balance sheet. Shares of public companies that are classified as current assets are marked to market as portfolio investments.

(E) NOTES RECEIVABLE

Notes receivable are reviewed on a loan by loan basis and where an impairment in the value of the note receivable is determined, a provision for impairment is made. The Company does not reflect in its consolidated financial statements further accrued interest on impaired loans, and to the extent further accrued interest is collected, this will be reflected in the Company's consolidated financial statements at that time.

(F) INVENTORIES

Inventories are valued at the lower of cost and estimated net realizable value with cost being determined on a first-in, first-out basis.

(G) CAPITAL ASSETS

Property, plant and equipment are recorded at the lower of cost and net recoverable amount. The cost of property disposed of and related accumulated amortization are removed from the accounts at the time of disposition with any resulting gain or loss included in income.

Management regularly reviews the carrying value of each of its capital assets, and if it is determined that there is an impairment in net carrying value, such impairment is charged to income in the year such determination is made. Future amortization will be charged based on the post-impairment carrying value.

Amortization is provided for over the estimated useful lives of the assets on the declining balance basis at rates ranging from four to thirty per cent. Leasehold improvements are amortized on a straight-line basis over the life of the related lease. Buildings are amortized on a declining balance basis at the rate of 4% per year.

(H) MINING PROPERTIES

Mining properties are recorded at the lower of cost and estimated net realizable value. Cost includes initial property acquisition costs, related property option payments, exploration and development costs, and other costs related to specific properties, but excludes all administration overhead, which is expensed as incurred.

If a mineral property is abandoned or it is determined that its carrying value cannot be supported by future production or sale, the related write-down or other costs are charged against operations in the year of abandonment or determination of impairment of value. The amounts recorded as mineral properties and deferred costs represent unamortized costs to date and do not necessarily reflect present or future values.

(I) ASSETS HELD FOR DISPOSAL

As the Company is a merchant bank operation, it is in the business of purchasing and disposing of businesses.

Long lived assets being held for sale that meet the restrictive criteria of Canadian generally accepted accounting principles (Section 3475 of the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook")) are segregated in the attached consolidated balance sheet. Any such assets for which sale has been completed before the completion of these financial statements are classified, in accordance with the requirements of the CICA Handbook, as current assets.

Long lived assets that are being held for disposal but for which the Company has no control over the disposal process are segregated and classified as assets held for disposal by other than sale.

Operating results of businesses or components of segments that are classified as being held for sale at year end, as well as results of business segments or components of segments sold, including gain or loss on sale, during the year are classified as results of discontinued operations in the attached consolidated financial statements. The 2003 operating results of any businesses sold during fiscal 2004 that met the requirements for treatment as discontinued operations have been reclassified to discontinued operations in the consolidated statement of earnings and deficit 2003 comparative figures.

(J) LONG-TERM INVESTMENTS

The accounts of all subsidiaries are consolidated from the dates of acquisition. Investments in significantly influenced companies are accounted for by the equity method. Other long-term investments, including shares in public companies not classified as current assets and interests in limited partnerships are carried at cost. When there is other than a temporary decline in value, these investments are written down to provide for the loss.

PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(K) LAND DEVELOPMENT COSTS

Land is recorded at the lower of cost, which includes development costs and carrying charges, and estimated recoverable amount. When there is an impairment in value, this decline is charged to earnings and land is carried at the reduced value.

(L) GOODWILL

Goodwill represents the excess of the cost of acquisitions over the fair market value of the net assets acquired at dates of acquisition. In accordance with the Section 3062 of the CICA Handbook, goodwill is not amortized. An annual review for impairment is conducted on goodwill and if an impairment is required it is charged to earnings in that period. The basis for determining whether an impairment has occurred is a comparison of the fair value of the reporting unit to which the goodwill relates to the carrying value of the reporting units net assets and liabilities including goodwill.

(M) REVENUE RECOGNITION

(i) Recreation

Revenue is recognized as services are provided or merchandise sold and title passes to the customer. Funds received in advance of meeting the revenue recognition criteria are deferred until future periods.

(ii) Interest

The Company recognizes interest when earned. If a loan is considered a non-performing loan, interest is not recognized until it is actually collected.

(iii) Rent

Rent revenue is recognized as income in the month earned.

(N) LEASES

Leases are classified as capital or operating leases. Leases which transfer substantially all of the benefits and risks or ownership of property are accounted for as capital leases. Assets acquired under capital leases are amortized on a declining balance method at an annual rate of 20%. All other leases are accounted for as operating leases and the related lease payments are charged to expense as incurred.

(O) INCOME TAXES

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in the period that includes the date of substantive enactment. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided.

(P) STOCK OPTION PLAN

The Company has a stock option plan as described in Note 18.

Effective October 1, 2002, the Company adopted Section 3870 ("Stock-Based Compensation and Other Stock-Based Payments") of the CICA Handbook. As permitted by Section 3870, the Company has applied this change prospectively for new awards granted on or after October 1, 2002. In periods prior to October 1, 2002, the Company recognized no compensation expense when stock options or warrants were issued to employees or non-employees. Under the new recommendations, the Company would otherwise be required to disclose pro-forma net earnings and earnings per share using the fair market value method of accounting for stock based compensation for options granted to employees and non-employees. However, as the Company has not granted any options since October 1, 2002, no pro-forma information is provided. The Company will adopt the revised recommendations of the CICA Handbook Section 3870 which became effective for year-ends beginning after January 1, 2004 and accordingly beginning October 1, 2004 the fair value of stock options to employees and directors will be recognized as an expense.

For stock-based compensation issued to non-employees, the Company recognizes an expense based on the fair value of the equity instrument issued.

**PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(Q) EMPLOYEE STOCK PURCHASE PLAN

As discussed in Note 18 the Company has an employee stock purchase plan whereby employees and directors are entitled to purchase common shares of the Company and the Company will issue the participant the equivalent number of common shares at no additional cost to the participant. In accordance with the Canadian Institute of Chartered Accountants rules the plan is considered a compensatory plan. Accordingly, the Company records as an expense the difference between the fair value of the common shares issued to the employee or director, as determined by the trading price on the day prior to the subscription, and the amount paid by the employee or director.

(R) EARNINGS PER SHARE INFORMATION

Earnings (loss) per share has been calculated and presented in accordance with the recommendations of the Canadian Institute of Chartered Accountants whereby the treasury method is used to calculate diluted earnings per share.

Basic and diluted earnings per share have been calculated using the weighted average number of common shares outstanding of 59,835,356. Diluted earnings per share is the same as basic earnings per share at September 30, 2004 as no stock options or warrants were outstanding to create a diluted effect. Diluted loss per share at September 30, 2003 has not been presented as the effect would be anti-dilutive.

(S) MORTGAGE LOANS HELD FOR SALE

Mortgage loans held for sale are stated at the lower of cost or market in the aggregate. Cost is determined on an individual basis and includes non-refundable fees and direct costs associated with the origination of loans. Market is determined by outstanding commitments and prevailing market prices. Gains (losses) represent the difference between the market price and the cost of the loans and are recognized when the loans are sold.

(T) FINANCING COSTS

Certain financing costs associated with obtaining mortgage financing are deferred and included in other assets. The deferred costs are amortized on a straight line basis over the life of the related financing obligation. If conditions change such that the financing obligation's original terms are significantly amended, the balance of the deferred financing costs are charged to earnings.

(U) USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the timing of recognition of revenues and expenses during the reporting period. Actual amounts may differ from these estimates as future events occur.

(V) LITIGATION

The Company assesses each lawsuit on an action by action basis as to the probability that a claim will be successful. Claims are not reflected as an asset or liability or an expense or recovery in the consolidated financial statements until such time as there is a high degree of probability that the claim will be successful, taking into consideration all avenues of appeal and settlement.

(W) COMPARATIVE AMOUNTS

Certain comparative amounts, including prior year results of business operations that meet the criteria for treatment as discontinued operations (Note 21), have been reclassified to the current year's presentation.

(X) OTHER RECENT PRONOUNCEMENTS

In June 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline No. 15, *Consolidation of Variable Interest Entities* (AcG-15). This guideline requires the consolidation of "variable interest entities". Management does not expect the adoption of AcG-15 will have a material effect on the Company's operations or financial position.

4. RELATED PARTY TRANSACTIONS

(A) DUE FROM RELATED PARTIES

	2004	2003
Note receivable from Mr. Peter Workum, former Chief Executive Office, bearing interest at 10.0%, with no fixed terms of repayment. Loan provided to enable the exercise of 305,000 stock options of the Company in December of 2000. 397,000 common shares of Newmex Minerals Inc. provided as collateral (see Note 25).	\$ 595,490	\$ 595,490
Receivable from Mr. Peter Workum, former Chief Executive Officer, unsecured and non-interest bearing, with no fixed terms of repayment (see Note 25).	147,144	147,144

PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

4. RELATED PARTY TRANSACTIONS (continued)

(A) DUE FROM RELATED PARTIES (continued)

Receivable from Mr. Peter Workum, former Chief Executive Officer, denominated in US \$1,644,693, unsecured and non-interest bearing, with no fixed terms of repayment (see Note 25).	2,088,596	2,226,256
Receivable from 667571 Alberta Ltd., a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, with no fixed terms of repayment, unsecured and non-interest bearing (see Note 25).	100,000	100,000
Receivable from Strategic Investments Fund, a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, with no fixed terms of repayment, unsecured and non-interest bearing (see Note 25).	192,000	192,000
Receivable from Lexington Capital Inc., a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, with no fixed terms of repayment, unsecured and non-interest bearing (see Note 25).	66,666	66,666
Note receivable from HS Replica Cars AG, a company believed to be controlled by Mr. Peter Workum, former Chief Executive Officer, and Mr. Rolf Brunner, a former director, due on demand, bearing interest at 12% per annum, and collateralized by real estate, with no fixed term of repayment (see Note 25).	425,193	425,193
Note receivable from Mr. Theodor Hennig, former Chief Financial Officer, unsecured, bearing interest at 10.0%, with no fixed terms of repayment. Loan provided to exercise 50,000 stock options of the Company in December of 2000 (see Note 25).	244,053	244,053
Promissory note receivable from Law Investments Inc., a company partially owned by Mr. Grant Sardachuk, a former director of the Company and former President of EnerGCorp, Inc., bearing interest at 8%. The note is denominated in US dollars (\$253,467), was due in September 2003 and is collateralized by 3,512 shares of common stock of American Home Capital Corporation, held in escrow.	321,878	343,093
Note receivable from The Creative Classics Company, a company now controlled by a shareholder and managed by a former officer, bearing interest at 7% with no fixed terms of repayment.	4,007,113	4,007,113
Note receivable from The Creative Classics Company, a company now controlled by a shareholder and managed by a former officer, denominated in US \$1,771,005, bearing interest at 7% with no fixed terms of repayment.	2,248,999	2,397,232
Note receivable from Swiss Plastering & Interiors, Inc., a company now controlled by a shareholder and managed by a former officer, denominated in US \$2,192,863, bearing interest at 7% with no fixed terms of repayment.	2,784,717	2,968,259
Note receivable from Hampton Court Resources, a company whose President was a director of the Company, with no fixed terms of repayment.	5,029,309	5,029,309
Due from a company affiliated with Mr. Greg Harrington, formerly a director of a subsidiary, non-interest bearing with no fixed terms of repayment. Denominated in US dollars (US \$50,499).	64,129	66,355
Unsecured promissory note due from a company affiliated with Mr. Greg Harrington, formerly a director of a subsidiary, denominated in US dollars (\$125,125), bearing interest at 9% interest per annum. The note was due December 28, 2002.	158,896	169,369
Unsecured promissory note due from Mr. Greg Harrington, formerly a director of a subsidiary, denominated in US dollars (\$316,682), bearing interest at 9% interest per annum. The note was due December 28, 2002.	402,154	428,661

PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

4. RELATED PARTY TRANSACTIONS (continued)

(A) DUE FROM RELATED PARTIES (continued)

Note receivable from Cofima Finanz AG, a company that has acted in concert with former management and a major shareholder, partially in US dollars (\$330,000) plus accrued interest, bearing interest at 18%, unsecured, and due on demand (see Note 25).

906,645 906,645

Note receivable from Alternative Vehicle Rentals Inc., a company now controlled by an entity controlled by Mr. Ron Conquest, who was acting in the capacity of an officer of EnerGCorp, Inc., bearing interest at the rate of 12% per annum, secured by automotive inventory denominated in US dollars (\$329,411).

418,319 445,891

Due from other affiliated companies, non-interest bearing with no fixed terms of repayment.

6,350 6,768

20,207,651 20,765,497

Less: provision for uncollectible amounts

(20,207,651) (20,765,497)

- -

The Company has not reflected in its consolidated financial statements further accrued interest on the loans included in the provision for uncollectible amounts, and to the extent further accrued interest is collected, this will be reflected in the Company's consolidated financial statements at that time.

(B) DUE TO RELATED PARTIES

	2004	2003
CPV/CAP COOP Personalversicherung, Pensionskasse der Coop Gruppe, ("CPV"), a significant shareholder in the Company, (September 30, 2003 - US \$3.0 million) secured by a first charge against the Mark Andrew note receivable, general security agreement of SAMI, and guaranteed by the Company. The indebtedness was repayable with monthly payments of interest only at the rate of 9% per annum, with full principal repayment due March 01, 2004.	\$ -	\$ 4,060,800
SPIDA at September 30, 2003 – US \$578,750, unsecured including accrued interest at 7% per annum, due January 31, 2004.	-	783,396
	<u>\$ -</u>	<u>\$ 4,844,196</u>

(C) TRANSACTIONS WITH RELATED PARTIES

a) In fiscal 2003, the Company was advised by a shareholder, SPIDA, that in June of 1999 it had loaned US \$500,000 to the Company's subsidiary EnerGCorp Inc. which had not been repaid. The Company determined that this loan was recorded as being offset against the note from The Creative Classics Company Inc. in a year prior to 2002. Since the Creative Classics note was fully provided for in the prior year, the note due to SPIDA was recorded in fiscal 2003, with accrued interest of US \$78,750 and a further write-down provision on the Creative Classic note of \$746,113 (US \$500,000) was recorded in fiscal 2003.

b) The Company paid interest to related parties for each of the years ended September 30, as follows;

	2004	2003
CPV (US \$88,250)	\$ 116,984	\$ 274,725
SPIDA (US \$22,170)	29,389	-
	<u>\$ 146,373</u>	<u>\$ 274,725</u>

c) During the year ended September 30, 2004, the Company paid US \$Nil (2003 – US \$7,860) of expenses on behalf of Mr. Peter Workum, former Chief Executive Officer.

d) During the year ended September 30, 2004 the Company was charged \$491,395 (September 30, 2003 - \$515,000) by the directors for directors fees and other services. At September 30, 2004 \$210,725 (September 30, 2003 - \$300,000) was due to these directors and included in accounts payable and accrued liabilities in the consolidated balance sheet. Included in the September 30, 2004 amounts are the director bonuses which were paid in December 2004 as a consequence of the transaction described in Note 28 (e).

**PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003**

4. RELATED PARTY TRANSACTIONS (continued)

(C) TRANSACTIONS WITH RELATED PARTIES (continued)

- e) During the year-ended September 30, 2003 a subsidiary charged Law Investments Inc., a company partially owned by Mr. Grant Sardachuk, formerly a director of the Company and President of EnerGCorp, Inc., interest of US \$17,388 (CDN \$25,476) on the note receivable. Management fees charged by Law Investments Inc. to a subsidiary of US \$11,576 (CDN \$16,961) partially offset this amount. No interest was recorded and no management fees were paid in the current fiscal year.
- f) Sale of Alternative Vehicle Rentals Inc.
The disposition in fiscal 2003 of Alternative Vehicle Rentals Inc. was to a company controlled by Mr. Ron Conquest, who at that time was acting in the capacity of an officer of EnerGCorp, Inc. until the Phoenix office was closed in April 2003. The purported disposition price was equal to repayment of advances of US \$255,000 previously made to the Company plus 50% of any proceeds from the sale of the vehicles on hand after the obligations of the entity were satisfied. The Company has only realized on \$75,000 of the proceeds through transfer of a vehicle to the Company. The remaining amounts owing to the Company have been fully provided for.

5. CONSULTING FEES

During the year ended September 30, 2004 the Company paid consulting fees for management services to APG Capital Services Corp. ("APG") under the terms of the agreement disclosed in Note 23(c), in the amount of \$608,000 (year ended September 30, 2003 – \$455,000).

In addition, the Company paid APG fees based upon the dispositions (as disclosed in Note 21) that occurred prior to year end in the amount of \$5,297,114 (year ended September 30, 2003 – \$1,494,589). Included in accounts payable and accrued liabilities at September 30, 2004 is \$236,000 due to APG, which amount is the transaction fee payable to APG as a consequence of the transaction described in Note 28 (e).

6. NOTES RECEIVABLE

	2004	2003
Note receivable from The Mark Andrew of the Palm Beaches Ltd. with the balance denominated in US dollars of \$12,442,266 as at September 30, 2003, bearing interest at 12% per annum through September 30, 2002 when the balance of principal and accrued interest was due and payable, secured by real estate mortgage, assignment and security agreement.	\$ -	\$ 16,841,852
Notes receivable from YUMA Development LLC with balance denominated in US dollars of \$4,298,144 at September 30, 2003. The notes were due on September 29, 2005, bearing interest at 8% per annum, and secured by real estate and other assets (see [a] below).	-	5,817,968
Notes receivable from Citywide Funding, Inc. with balance denominated in US dollars of \$2,234,500 (2003 - \$2,234,500) with interest at 20% per annum, due on demand, unsecured.	2,837,592	3,024,619
Note receivable from Montevina Estate Homes with balance denominated in US dollars of \$811,125, bearing interest of 12% per annum, secured by a subordinated charge on real estate.	1,030,048	1,097,939
Notes receivable from Comsite AG Inc. bearing interest at the rate of 24% per annum, convertible into common shares of Comsite AG Inc.	774,072	774,072
Notes receivable from Chateau Hotels and Resorts Inc. (see Note 25), bearing interest ranging from 12% to 24% per annum, secured by a personal guarantee and financing contracts, due September 30, 2002.	572,418	572,418
Notes receivable from Mr. Mark Guidolin, guaranteed by Hole Shot Custom Engines Ltd., and a pledge of shares of Hole Shot Custom Engines Ltd., bearing interest at the rate of 24% per annum, due January 2, 2003.	-	235,624
Notes receivable from 557497 Alberta Limited, unsecured, interest at 12% per annum, due on demand.	130,000	130,000
Other notes receivable due on demand.	27,229	59,683
	5,371,359	28,554,175

PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDING SEPTEMBER 30, 2004 AND 2003

6. NOTES RECEIVABLE (continued)

	2004	2003
Deduct provision for impairment in value	<u>(4,314,082)</u>	<u>(11,970,083)</u>
	1,057,277	16,584,092
Current portion	<u>-</u>	<u>-</u>
	<u>\$ 1,057,277</u>	<u>\$ 16,584,092</u>

[a] In May 2004 a transaction was completed whereby EnerGCorp Inc. received a parcel of land in Phoenix, Arizona as full settlement of the remaining outstanding balance due under the note receivable with YUMA Development LLC. At the time of settlement, the note receivable had a written-down carrying value of US \$2,000,000. This land was subsequently sold, resulting in a gain of \$1,239,069.

The provision for impairment in value has been determined on a loan by loan basis. The Company has not accrued further interest on impaired loans, and to the extent interest is subsequently collected, this will be recorded at the time of collection of the interest.

Those loans made in US dollars are translated into Canadian dollar equivalents at the exchange rate in effect on the last day of the reporting period. Accordingly the carrying value of these notes receivable will fluctuate between periods, and an exchange gain or loss could result upon the collection of the note receivable.

7. RESTRICTED CASH DEPOSITS

Restricted cash is not available for general corporate purposes. For the year ended September 30, 2004, the restricted cash deposit is comprised of \$5,000,000 held in a trust account pursuant to a trust agreement in respect of the indemnity the Company provided to its present and certain past directors and officers against claims and liabilities that may arise as a result of their association with the Company (see Note 25).

The September 30, 2003 restricted cash relates to either funds held in trust or collateral for letters of credit, with the release of these amounts dependent upon the Company completing certain development activities or other conditions specifically determined in individual agreements.

8. INVENTORIES

Inventories are comprised of the following:

	2004	2003
Supplies and merchandise	\$ 24,884	\$ 608,616
Vehicles and automotive parts	20,940	99,618
Work in progress - homes	-	210,799
	<u>\$ 45,824</u>	<u>\$ 919,033</u>

9. LAND DEVELOPMENT COSTS

Land development costs are comprised of the following:

	2004	2003
Development costs	\$ -	\$ 2,740,539
Capitalized interest	-	855,373
	-	3,595,912
Deduct provision for impairment in value	-	(2,958,296)
	<u>\$ -</u>	<u>\$ 637,616</u>

PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. PROPERTY, PLANT AND EQUIPMENT

	2004		
	Cost, net of impairment	Accumulated depletion and amortization	Net carrying value
Buildings	\$ 826,041	\$ 117,573	\$ 708,468
Mining properties	125,000	-	125,000
Leasehold improvements	324,965	232,479	92,486
Machinery and equipment	190,160	180,033	10,127
Vehicles	71,332	44,031	27,301
	<u>\$ 1,537,498</u>	<u>\$ 574,116</u>	<u>\$ 963,382</u>

	2003		
	Cost, net of impairment	Accumulated depletion and amortization	Net carrying value
Land	\$ 680,270	\$ -	\$ 680,270
Buildings	41,587,088	4,149,268	37,437,820
Mining properties	1,027,989	-	1,027,989
Landscaping	9,100	1,820	7,280
Leasehold improvements	1,672,560	317,623	1,354,937
Machinery and equipment	3,710,317	2,282,597	1,427,720
Vehicles	494,074	195,117	298,957
	<u>\$ 49,181,398</u>	<u>\$ 6,946,425</u>	<u>\$ 42,234,973</u>

The net carrying value of equipment under capital lease obligations included in the above is \$Nil (approximately \$25,000 at September 30, 2003).

11. INVESTMENTS

	2004	2003
AirlQ – at cost (market - \$532,162)	317,033	456,753
Phoenix Capital Inc. – at cost (market - \$334,410)	450,818	450,818
Other – at cost	33,900	326,256
	<u>\$ 801,751</u>	<u>\$ 1,233,827</u>

Included in the “other” category are the coal bed methane leases, which at September 30, 2004 the Company wrote-down by \$347,282 thereby reducing the carrying value thereof to nil (2003 - \$292,352).

12. TCS MORTGAGE INC. (“TCS”)

On October 3, 2003, the sole director of American Home Capital Corporation (“AHCC”) purported to effect the sale of TCS to a company related to management of TCS without the knowledge or consent of Proprietary, the major indirect shareholder. The operations of TCS continue without management or supervision from Proprietary and Proprietary has been unable by legal means to assert control or ownership. Proprietary is challenging the offered price and certain other aspects of this purported sale. While Proprietary management has attempted a number of times to resolve these issues with TCS, it has been unsuccessful to date. Proprietary is exploring other avenues that may be available to it to resolve the issues.

The Company therefore effectively lost control of the TCS operations on October 3, 2003, no further financial information on the operations of TCS has been received by the Company, and TCS management has not responded to requests for such information. As a result of the aforesaid effective loss of control, the Company has determined that a disposition took place, it has discontinued the inclusion of TCS in its consolidated financial statements, and it has taken a valuation allowance and write-down of its investment in TCS of \$513,233. Upon the ultimate resolution of this matter the Company will include any recovery of its investment in its consolidated financial statements at that time.

**PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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13. ASSETS HELD FOR DISPOSAL BY OTHER THAN SALE

WATERTON LAKES LODGE

	2004	2003
The Company's subsidiary, The Lodge at Waterton Lakes Inc., and The Lodge at Waterton Lakes Limited Partnership (collectively "Waterton") owned the Waterton Lakes Lodge. On November 29, 2002 the secured lender of Waterton Lakes Lodge placed the property into receivership after demanding repayment of its loan. At that time, the Company provided for a write-down in the carrying value of the property based on the estimated liquidation value. Subsequently, in the current fiscal year the receiver has foreclosed and sold the property (see Note 25). Accordingly, the Company has removed the assets and liabilities from its records, with the \$2,976,709 excess of recorded liabilities over carrying amount of assets reflected in the consolidated financial statements as other income.		
Assets held for disposal by other than sale	\$ -	\$ 2,885,532
	<u>\$ -</u>	<u>\$ 2,885,532</u>
Obligations related to assets held for disposition by other than sale		
First mortgage due to Royal Trust, bearing interest at 8.21%, secured by buildings and other assets having a carrying value of \$2,885,532 at September 30, 2003, currently due.	\$ -	\$ 4,004,492
15% second mortgage, maturing December 31, 2002, secured by buildings and other assets, having a carrying value at September 30, 2003 of \$2,885,532.	-	1,500,000
Other	-	357,749
	<u>\$ -</u>	<u>\$ 5,862,241</u>

14. ASSETS HELD FOR DISPOSAL BY SALE

Long lived assets that are not yet disposed of at period end and that meet the restrictive criteria under generally accepted accounting principles (Section 3475 of the CICA Handbook), are segregated and classified as assets held for disposal by sale. The indebtedness secured by these long lived assets is classified as obligations related to assets held for disposal by sale. Long lived assets that are classified as assets held for disposal by sale at period end for which the sale has been completed by the date of completion of these financial statements are classified as current assets.

	Bancroft Commercial Plaza and Land (Note 21)	Total
Assets held for disposal by sale at September 30, 2004:		
Property, plant and equipment	\$ 654,964	\$ 654,964

PROPRIETARY INDUSTRIES INC.
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14. ASSETS HELD FOR DISPOSAL BY SALE (continued)

Assets held for disposal by sale
at September 30, 2003:

	Canadian Rocky Mountain Properties Inc. ("CMP") (Note 21)	Family Golf Acquisitions Inc. ("Eagle Quest") (Note 21)	Pebble Beach Apartments Inc. (Note 21)	Total
Property, plant and equipment	\$ 14,782,358	\$ 9,904,716	\$ 13,121,117	\$ 37,808,191
Other assets	3,564	183,182	378,589	565,335
	<u>\$ 14,785,922</u>	<u>\$ 10,087,898</u>	<u>\$ 13,499,706</u>	<u>\$ 38,373,526</u>

Obligations related to assets held
for disposal by sale at September 30, 2003:

Mortgages secured by property, plant and equipment	\$ 13,430,565	\$ 2,262,861	\$ 11,357,738	\$ 27,051,164
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15. BANK INDEBTEDNESS

Loan agreement with a U.S. Bank, which allowed the Company's former subsidiary TCS Mortgage Inc. (see Note 12) to fund loans through a US \$9,500,000 line of credit provided by the U.S. Bank. Amount was denominated in US dollars in the amount of \$1,850,391 and was secured by mortgages held for sale having a carrying value at September 30, 2003 of US \$2,229,382.

\$	-	\$	2,504,689
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16. SHORT-TERM NOTES PAYABLE

DRS Resource Investments Inc., (US \$800,000) bearing interest at 8% per annum, secured by the shares of Pebble Beach Apartments Inc. (see Note 21).

\$	-	\$	1,082,880
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Paragon Capital Corporation Ltd., note payable secured by a second charge on the Kananaskis Mountain Lodge along with the Company's interest in 322375 Alberta Ltd. The security had a carrying value of \$6,879,023 at September 30, 2003. The note bore interest at the rate of 2.5% per month compounded monthly and was repayable December 12, 2003. Monthly repayments of interest only were required.

-	2,000,000
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The Lodge at Waterton Lakes Limited Partners and the shareholders of The Lodge at Waterton Lakes Inc., bearing interest at a rate of 8% per annum. This note payable is now unsecured, but it was previously secured by a third charge on real estate described in Note 13 (also see Note 25).

650,000	650,000
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Sundry

242,489	258,471
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\$	<u>892,489</u>	\$	<u>3,991,351</u>
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PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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17. LONG-TERM DEBT

	2004	2003
Qualicum Heritage Inn		
Demand loan, subject to a forbearance agreement until June 30, 2004, repayable in monthly installments of \$13,275 including interest at prime plus 2%, secured by a general security agreement and land and building having a carrying value of \$1,321,102 at September 30, 2003 (see Note 21).	\$ -	\$ 589,461
Kananaskis Resort & Conference Centre		
Demand loan, subject to a forbearance agreement until June 30, 2004, repayable in monthly installments of \$32,000 including interest at prime plus 1%, secured by the premises and the leasehold interest having a carrying value of \$6,879,023 at September 30, 2003 (see Note 21).	-	3,005,183
Demand loans, subject to a forbearance agreement until June 30, 2004, repayable in monthly installments of \$6,667 plus interest. Interest is at prime plus 1%, secured by the premises and the leasehold interest having a carrying value of \$6,879,023 at September 30, 2003 (see Note 21).	-	393,353
Eau Claire Festival Market		
Mortgage payable in monthly installments of \$223,388 including interest at 8.36%, secured by a first charge on capital assets having a carrying value of \$26,870,270 at September 30, 2003, general assignment of lease rents and other security. The mortgage was due July 15, 2004 as the Company was not able to meet required debt covenants (see Note 21).	-	24,279,518
High River Plant and Land		
Mortgage payable in three installments of \$100,000 including interest at 12%, secured by land and building having a carrying value of \$556,627 at September 30, 2003. The mortgage was due December 31, 2003.	-	289,374
776910 Ontario Ltd.		
Mortgage payable bearing interest at 9.5%, due on demand, repayable from the proceeds of sale of certain real estate assets, which had a carrying value of \$299,106 at September 30, 2003.	-	334,000
322375 Alberta Ltd.		
Mortgage payable in monthly installments of \$4,875 including interest at 7.8%, secured by the building and leasehold interest having a carrying value of \$339,619 at September 30, 2003. The mortgage was due May 1, 2009.	-	261,017
Bancroft Commercial Plaza		
Demand loan payable in monthly installments of \$6,032 including interest at 8%, secured by a first mortgage on certain real estate having a carrying value of \$601,622 at September 30, 2003, and an assignment of rents and fire and other perils insurance. The mortgage was due February 1, 2004.	-	410,682
BC Condos (McGinty Landing)		
Mortgages payable in monthly installments of \$8,494 including interest at various rates from 6.9% to prime plus 4% secured by first mortgages on capital assets with a carrying value of \$708,468, and an assignment of rents. The mortgages are due in 2005, subject to annual renewal.	605,200	777,764
Other – capital lease obligations, implicit lease rate of 10% to 12%, payable in monthly installments of \$1,900, due on various dates until 2005.	-	31,598
	<u>605,200</u>	<u>30,371,950</u>

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17. LONG-TERM DEBT (continued)

	2004	2003
Less current portion	<u>605,200</u>	<u>30,361,281</u>
	<u>-</u>	<u>10,669</u>

The debt on the BC condos has been reflected as current, as the mortgages are subject to annual renewal.

Principal repayments on long-term debt over the next five years are as follows:

2005	\$ 605,200
2006	-
2007	-
2008	-
2009	-
	<u>\$ 605,200</u>

18. SHARE CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of common shares, and an unlimited number of preferred shares. The preferred shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions, and conditions attached to the shares of each series.

b) Issued

Common shares issued:

	Number of shares	Attributed Value
Balance September 30, 2001	56,684,242	\$ 141,323,353
Issued for cash in private placement, net of issue costs	2,758,000	3,354,338
Issued to employees and directors under the employee share purchase plan:		
For cash	991,307	817,551
Contributions by the Company	991,307	817,551
Redemption of shares	(1,589,500)	(3,993,435)
Balance September 30, 2002, 2003 and 2004	<u>59,835,356</u>	<u>\$ 142,319,358</u>

c) Stock Options and Warrants

A summary of the Company's options at September 30, 2004 and 2003 and the changes for the years ending on those dates is as follows:

	2004		2003	
	Options Outstanding	Weighted Average Price	Options Outstanding	Weighted Average Price
Balance at beginning of year	407,000	\$ 0.81	3,832,000	\$ 0.87
Granted	-	-	-	-
Expired	(407,000)	(0.81)	(3,425,000)	(0.88)
Exercised	-	-	-	-
Balance at end of year	-	\$ -	407,000	\$ 0.81

All outstanding options expired January 3, 2004. No options were granted in the current fiscal year.

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18. SHARE CAPITAL (continued)

d) Employee Stock Purchase Plan

The Company has an Employee Stock Purchase Plan ("the Plan"). Under the terms of the Plan employees, directors, officers and full-time consultants, as designated by the Board of Directors, who have held a position with the Company or an affiliated entity for a period of one year are eligible to participate.

Employees who elect to participate in the Plan, upon being eligible must elect to do so by the end of the fiscal year that they are designated for eligibility. Employees who elect to participate can purchase up to \$100,000 of common shares based upon the last closing trading price on the TSX Exchange prior to the completion of the election to participate. The Company will match the contribution of the employee such that the employee will have acquired two (2) common shares for the price of one (1) common share.

The aggregate maximum number of common shares that can be reserved for issuance pursuant to the Plan is 5,000,000 common shares. As at September 30, 2004 a total of 1,982,614 common shares have been issued pursuant to the Plan leaving a balance of 3,017,386 reserved for issuance under the Plan, excepting that number of common shares reserved for issuance under all share compensation plans cannot exceed 10% of the issued and outstanding common shares of the Company. As a result, the maximum number of common shares eligible under all share compensation plans at September 30, 2004 is 5,983,535. The total eligible under the Plan is the lower of this amount less the stock options outstanding or the above amount. Therefore the number that can be reserved for issuance under the Plan is 3,017,386 common shares at September 30, 2004.

In May 2004, the Board of Directors suspended the Plan. At the time of suspension of the Plan, no employees were eligible to exercise stock purchases under the Plan.

e) Shareholders Rights Plan

Effective January 28, 2002, the Board of Directors adopted, and subsequently on March 28, 2002 the shareholders approved and ratified, a Shareholders' Rights Plan (the "Rights Plan") whereby each common share of the Company carries one right to purchase additional common shares. The rights under the Rights Plan are currently not exercisable but may become exercisable upon the acquisition by a person or group of affiliated persons ("Acquiring Person") of beneficial ownership of 20% or more of the Company's outstanding voting shares or upon the commencement of a takeover bid, other than a "Permitted Bid" as defined in the Rights Plan. Upon a person becoming an Acquiring Person, holders of rights, with the exception of the Acquiring Person, in such circumstances will be entitled to purchase from the Company for \$100 common shares having a market price of \$200 at the time the rights become exercisable.

The Rights Plan has a permitted bid feature which allows a takeover bid to proceed without the rights under the Rights Plan becoming exercisable, provided that it meets certain requirements set out in the Rights Plan, including minimum time periods for acceptance of the bid, a minimum 50.1% acceptance by shareholders excluding the Acquiring Party, and the filing of a takeover bid circular, even if the Board of Directors does not support the bid.

The Rights Plan will terminate at the close of the annual general meeting of shareholders held after January 28, 2005. The rights will expire on this date if they have not otherwise been redeemed or extended, with shareholder approval. The rights can be redeemed for \$0.00001 per right at any time prior to a non-permitted bid or upon the successful completion of a permitted bid.

Subsequent to year end and in relation to the proposed take-over bids for the Company, the Shareholders Rights Plan was waived effective November 15, 2004 (see Note 28 (e)).

PROPRIETARY INDUSTRIES INC.
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19. CONTRIBUTED SURPLUS

Contributed surplus arises from the repurchase of common shares at prices less than the average attributed value per common share at the time of repurchase. Contributed surplus also arises from the excess of funds received over the cost of the assets surrendered on transactions with related parties.

Contributed surplus is as follows:

Balance September 30, 2000	\$ -
Contributions from related parties regarding:	
Swiss Plastering & Interiors Inc.	7,120,429
The Creative Classic Company Inc.	4,951,911
	<u>12,072,340</u>
Gain on redemption of common shares	598,550
Balance, September 30, 2001	<u>12,670,890</u>
Adjustment due to non-controlling interest recovery	760,848
Gain on redemption of common shares	2,098,470
Balance, September 30, 2002, 2003 and 2004	<u>\$ 15,530,208</u>

20. WRITE-DOWNS AND RECOVERIES

Each asset classified as an "asset held for disposal by sale" is reviewed at the time of reclassification to determine if its carrying value is greater than the expected fair value less costs to sell. To the extent an excess exists, the asset is written down with the write-down included in "discontinued operations" in the statement of earnings and deficit. Subsequently, at each quarter end assets categorized as "assets held for disposal by sale" are reviewed to determine if their fair value less costs to sell has changed, and to the extent a material change has occurred either a further write-down or a recovery of the prior write-down is recorded, with the said adjustment reflected in the "discontinued operations" category in the statement of earnings and deficit. Write-downs of assets not categorized as "assets held for disposal by sale" are reflected as a separate expense category in the statement of earnings and deficit.

The \$5,423,455 recovery reflected in the consolidated statements of earnings and deficit at September 30, 2004 is comprised of the recovery of previous write-downs relating to The Mark Andrew of the Palm Beaches Ltd. and the YUMA Development LLC notes receivable with recoveries of \$5,056,219 and \$367,236 respectively (refer to Note 6).

The write-downs and recoveries in addition to the write-downs described in Note 21, by category are:

Year-ended September 30,	2004	2003
Write-downs:		
Property, plant and equipment	\$ 1,089,535	\$ -
Goodwill and other assets	-	-
Land development costs	-	693,442
Accounts and notes receivable	513,233	372,724
Due from related parties	-	746,113
Long-term investments	2,347,282	-
Other	-	15,262
	<u>\$ 3,950,050</u>	<u>\$ 1,827,541</u>
Recoveries:		
Accounts and notes receivable	<u>\$ 5,423,455</u>	<u>\$ 837,119</u>

**PROPRIETARY INDUSTRIES INC.
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21. DISCONTINUED OPERATIONS

The Company has determined that the operations of the businesses or components of businesses that constitute "components of an enterprise" as defined by section 3475 of the CICA Handbook, that were sold during the year or classified as held for disposal by sale at year end (Note 14) have been or will be eliminated from the Company's ongoing operations as results of these sales. The Company has also determined that it will have no continuing involvement in the operations of these businesses after completion of the sale. Therefore, the Company reclassified as discontinued operations, the operating results of these businesses. The comparative operating results are also reclassified to reflect the operating results of the discontinued operations separately in the comparative period. Results of operations for subsidiaries disposed during the year are included in the discontinued operations results up to the date of disposition.

(i) Dispositions that occurred during the year are as follows:

(a) Canadian Rocky Mountain Properties Inc. ("CMP")

On October 6, 2003 the Company sold its entire shareholdings in CMP in response to a takeover bid made by Parkbridge Limited Partnership. The disposition was an all cash sale of \$2.00 per common share and generated gross proceeds to the Company of approximately \$6 million. The Company utilized \$2.6 million to repay an inter-company obligation owed to CMP.

(b) Family Golf Acquisitions Inc. ("Family Golf")

In November of 2003, Family Golf's subsidiary Eagle Quest sold its Markham golf operations for approximately \$2.8 million. In December of 2003 the Company sold the balance of its golfing segment, exclusive of the Thunder Bay Golf Dome, by selling its shareholdings in Family Golf Acquisitions Inc. for \$8.2 million subject to certain adjustments. Approximately \$2.2 million of the proceeds were utilized to repay Eagle Quest indebtedness.

(c) Pebble Beach Apartments Inc. ("Pebble Beach")

In November 2003 the Company sold Pebble Beach back to its original owner. The disposal was completed partially to settle the dispute with the original owner with regard to the balance of the original purchase price still outstanding at September 30, 2003. The purchaser assumed the mortgage of approximately US \$8.4 million, extinguished its note of US \$800,000 and made a cash payment of US \$550,000. After deducting estimated costs of disposition, the net proceeds (including the debt assumptions described above) were approximately US \$9.5 million. As the carrying value of the property in US dollars at September 30, 2003 was less than the net proceeds this resulted in a net US dollar gain of approximately \$152,000. The resulting loss on the disposition is due to foreign exchange translation as the carrying value of the property was carried based on historical foreign exchange rates and the proceeds, composed mainly of indebtedness owing at September 30, 2003, were translated at foreign exchange rates that were in effect at the date of disposition.

(d) Qualicum Heritage Inn

In February 2004 the Company disposed of the operating assets of NJQ Holdings Ltd., being the Qualicum Heritage Inn for gross proceeds of approximately \$1.1 million. The Company utilized approximately \$0.6 million of the sale proceeds to repay the indebtedness associated with the property (see Note 17).

(e) Kananaskis Properties

In March 2004 the Company disposed of its Kananaskis properties comprised of the Kananaskis Resort and Conference Centre and the related staff residences and duplexes, for gross sale proceeds of \$8,750,000. The Company utilized approximately \$3,600,000 of the sale proceeds to repay the indebtedness on the properties (see Note 17).

(f) Bancroft Townhouses and Land

In April 2004 the Company disposed of the Bancroft condominium properties, consisting of three townhouses (each containing three condominium units) and seven contiguous undeveloped lots, for gross sale proceeds of \$835,000.

(g) Willow Creek Homes

In April 2004 the Company disposed of its interests in Willow Creek Homes Inc. ("WCHL") and the property and facilities from which WCHL carried out its operations for total gross sale proceeds of \$600,000.

(h) Springbank Airport Office Building

In May 2004 the Company disposed of its interests in its Springbank Airport office building for gross sale proceeds of \$200,000.

**PROPRIETARY INDUSTRIES INC.
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21. DISCONTINUED OPERATIONS (continued)

(i) Dispositions that occurred during the year are as follows: (continued)

(i) Eau Claire Festival Market

In June 2004 the Company disposed of its interests in its Eau Claire Festival Market for gross sale proceeds of \$28,000,000. The Company utilized approximately \$23.8 million of the sale proceeds to repay the debt on the property. As a result of the sale of Eau Claire Festival Market, the Company closed its IMAX Theatre operations in July 2004, and the operations of the IMAX Theatre have been included in discontinued operations (see Note 17).

(j) Bancroft Commercial Lands

In July 2004 the Company disposed of its Bancroft undeveloped commercial lands for gross sale proceeds of \$1,600,000.

PROPRIETARY INDUSTRIES INC.
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21. DISCONTINUED OPERATIONS (continued)

Summary of fiscal 2004 dispositions:

	Canadian Rocky Mountain Properties Inc.	Family Golf Acquisitions Inc.	Pebble Beach Apartments Inc.	Qualicum Heritage Inn	Kananaskis Properties	Eau Claire Festival Market	Springbank	Willow Creek Homes	Bancroft	Total
Net assets disposed:										
Current assets	\$ 60,361	\$ 504,882	\$ 253,781	\$ 82,607	\$ 182,568	\$ 846,268	\$ 1,820	\$ 44,796	\$ -	\$ 1,977,083
Other assets	178,367	-	-	-	-	-	-	229,028	-	407,395
Capital and other non-current assets	14,785,922	9,786,285	13,488,525	1,064,913	7,578,053	25,684,570	200,277	304,865	1,309,926	74,203,336
	15,024,650	10,291,167	13,742,306	1,147,520	7,760,621	26,530,838	202,097	578,689	1,309,926	76,587,814
	(691,960)	(1,045,352)	(325,300)	(72,664)	(397,459)	(713,591)	(2,153)	(3,238)	(8,812)	(3,260,529)
Current liabilities										
Future income taxes and non- controlling interest	(888,051)	-	-	-	-	-	-	-	-	(888,051)
	13,444,639	9,245,815	13,417,006	1,074,856	7,363,162	25,817,247	199,944	575,451	1,301,114	72,439,234
Proceeds on disposition:										
Cash	6,541,176	10,171,860	725,450	530,689	4,919,479	4,042,819	199,666	641,558	2,426,188	30,198,885
Recovery of deposit	-	-	-	100,000	-	300,000	-	-	-	400,000
Deduct: repayment of advances from subsidiary	(2,554,938)	-	-	-	-	-	-	-	-	(2,554,938)
	(476,323)	(403,392)	(14,893)	-	-	-	-	-	-	(894,608)
Deduct: cash of subsidiary										
Net cash received	3,509,915	9,768,468	710,557	630,689	4,919,479	4,342,819	199,666	641,558	2,426,188	27,149,339
Satisfaction of indebtedness	-	-	1,104,443	560,321	3,619,202	23,789,858	-	-	-	29,073,824
Indebtedness assumed by purchaser	13,430,565	656,193	11,062,774	-	-	-	-	-	-	25,149,532
	(999,558)	(807,087)	(326,480)	(110,791)	(801,302)	(2,324,378)	(13,067)	(113,677)	(271,200)	(5,767,540)
Costs of disposition										
Net proceeds	15,940,922	9,617,574	12,551,294	1,080,219	7,737,379	25,808,299	186,599	527,881	2,154,988	75,605,155
Gain (loss) on disposition (see (iii))	\$ 2,496,283	\$ 371,759	\$ (865,712)	\$ 5,363	\$ 374,217	\$ (8,948)	\$ (13,345)	\$ (47,570)	\$ 853,874	\$ 3,165,921

PROPRIETARY INDUSTRIES INC.
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21. DISCONTINUED OPERATIONS (continued)

- (ii) Dispositions that were completed subsequent to year end but reported as discontinued operations and assets held for disposal by sale are as follows:

(a) Bancroft Commercial Plaza and Land

In October 2004 the Company closed the sale of its Bancroft commercial plaza and remaining land for gross sale proceeds of \$750,000. As these assets were written down to estimated net recoverable value, no gain or loss is expected. The title to the commercial plaza was transferred to the purchaser in October 2004 with title to the remaining land expected to be transferred in December 2004 upon the rezoning of the land.

Summary:

	Bancroft Commercial Plaza and Land	Total
Proceeds on disposition	\$ 750,000	\$ 750,000
Costs of disposition	(95,036)	(95,036)
Net proceeds	654,964	654,964
Carrying value of assets held for disposal by sale	654,964	654,964
Gain on disposition, after period end	\$ -	\$ -

PROPRIETARY INDUSTRIES INC.
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21. DISCONTINUED OPERATIONS (continued)

(iii) Results of Operations for discontinued operations for the applicable period are as follows:

Year ended September 30, 2004																							
Revenues	\$	1,057,444	\$	-	\$	476,626	\$	1,876,334	\$	139,946	\$	4,043	\$	140,004	\$	733,864	\$	5,280,009	\$	306,663	\$	10,014,933	
Cost of sales		1,181,135		-		415,185		1,186,030		47,753		25,910		118,035		179,956		2,492,872		188,346		5,835,222	
General and administrative		229,964		-		196,897		890,955		8,036		-		-		723,934		654,472		216,400		2,920,658	
Interest on long-term debt		19,549		-		22,368		71,032		79,842		-		16,779		-		1,498,508		-		1,708,078	
Depreciation and amortization		105,945		-		16,189		192,060		-		3,841		37,887		-		622,727		6,140		984,789	
Write-downs		-		-		240,000		-		-		180,000		616,000		-		735,000		244,630		2,015,630	
		1,536,593		-		890,639		2,340,077		135,631		209,751		788,701		903,890		6,003,579		655,516		13,464,377	
Net earnings (loss) before gain (loss) on disposition and income taxes		(479,149)		-		(414,013)		(463,743)		4,315		(205,708)		(648,697)		(170,026)		(723,570)		(348,853)		(3,449,444)	
Income taxes		-		-		-		-		-		-		-		-		-		-		-	
Net operating earnings (loss)		(479,149)		-		(414,013)		(463,743)		4,315		(205,708)		(648,697)		(170,026)		(723,570)		(348,853)		(3,449,444)	
Gain (loss) on disposition		371,759		2,496,283		5,363		374,217		(865,712)		(13,345)		853,874		-		(8,948)		(47,570)		3,165,921	
Net earnings (loss) from discontinued operations		\$	(107,390)	\$	2,496,283	\$	(408,650)	\$	(89,526)	\$	(861,397)	\$	(219,053)	\$	205,177	\$	(170,026)	\$	(732,518)	\$	(396,423)		(283,523)
Reversal of accounts payable (Note)																						783,773	
																						\$	500,250

Note - previously recorded accounts payable relating to operations which the Company has disposed of or have been discontinued have been reversed, as the Company no longer has any such obligation. The reversals primarily relate to the Company's U.S. subsidiaries.

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21. DISCONTINUED OPERATIONS (continued)

(iii) Results of Operations for discontinued operations for the applicable period are as follows:

Year ended	Family Golf Acquisitions Inc.	Canadian Rocky Mountain Properties Inc.	Invader Exploration Inc.	Qualicum Heritage Inn (1)	Kananaskis Properties (1)	University Polo Club	Pebble Beach Apartments Inc.	Alternative Vehicle Rentals Inc.	TCS Mortgage (1) (Note 12)	Springbank (1)	Bancroft (1)	IMAX (1)	Eau Claire Festival Market (1)	Willow Creek Homes (1)	Total
September 30, 2003															
Revenues	\$12,193,499	3,414,646	709,666	1,846,894	4,853,298	2,129,582	1,729,072	(284,213)	9,971,320	22,533	217,031	1,217,235	7,439,947	1,777,841	\$47,238,351
Cost of sales	10,122,967	1,082,407	188,780	1,334,074	2,803,760	949,229	746,758	8,552	6,654,613	32,947	187,537	422,153	3,477,349	1,191,939	29,203,065
General and administrative	1,751,684	310,454	134,797	577,565	1,261,338	1,319,169	219,396	225,227	2,952,466	-	-	792,377	1,040,784	320,422	10,905,679
Interest on long-term debt	568,161	1,092,839	-	66,800	253,155	1,081,786	1,001,487	13,418	73,036	-	75,180	-	2,062,309	-	6,288,171
Depreciation and amortization	972,430	435,352	81,559	74,013	846,495	437,412	593,666	42,602	56,535	16,005	66,596	-	1,235,655	15,064	4,873,384
Write-downs	2,000,000	-	-	175,000	-	-	-	-	2,841,895	-	-	-	1,300,000	300,000	6,616,895
Other	14,199	3,607	-	(175)	41,639	-	-	-	-	-	-	-	-	-	59,270
	15,429,441	2,924,659	405,136	2,227,277	5,206,387	3,787,596	2,561,307	289,799	12,578,545	48,952	329,313	1,214,530	9,116,097	1,827,425	57,946,464
Net earnings (loss) before the following	(3,235,942)	489,987	304,530	(380,383)	(353,089)	(1,658,014)	(832,235)	(574,012)	(2,607,225)	(26,419)	(112,282)	2,705	(1,676,150)	(49,584)	(10,708,113)
Non-controlling interest	-	73,476	162,161	-	-	-	-	-	(4,571)	-	-	-	-	-	231,066
Income taxes	27,439	309,689	-	-	2,134	-	-	-	-	-	20,543	-	-	138,408	498,213
Net operating earnings (loss)	(3,263,381)	106,822	142,369	(380,383)	(355,223)	(1,658,014)	(832,235)	(574,012)	(2,602,654)	(26,419)	(132,825)	2,705	(1,676,150)	(187,992)	(11,437,392)
Gain (loss) on disposition	1,919,015	-	505,309	-	-	(1,181,561)	-	(280,687)	-	-	-	-	-	-	962,076
Net earnings (loss) from discontinued operations	\$ (1,344,366)	106,822	647,678	(380,383)	(355,223)	(2,839,575)	(832,235)	(854,699)	(2,602,654)	(26,419)	(132,825)	2,705	(1,676,150)	(187,992)	\$ (10,475,316)

(1) – Operations, which based upon 2004 activities, have been reclassified to provide comparative information on discontinued operations for 2003.

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22. INCOME TAXES

The income tax provision reflects an effective tax rate that differs from the expected tax rate as summarized below:

	2004	2003
Expected tax (recovery) at 39.702% (38.394% for 2003)	\$ 2,453,843	\$ (3,260,848)
Large Corporation Tax	-	79,494
Exempt portion of capital gains	(85,974)	(24,673)
Benefit of utilization of tax losses of previous years	(4,218,886)	(1,135)
Valuation adjustments	(4,973,601)	(6,783,096)
Adjustment to future tax assets and liabilities for enacted tax rates	626,410	1,035,655
Tax losses of current year of continuing operations not recognized for accounting purposes	2,767,360	4,683,948
Tax losses of current year of discontinued operations not recognized for accounting purposes	3,398,522	4,184,933
	<u>\$ (32,326)</u>	<u>\$ (85,722)</u>

The tax effects of temporary differences that give rise to future tax balances at September 30 are presented below:

	2004	2003
Future tax assets:		
Mining properties and deferred costs	\$ 1,188,418	\$ 1,295,602
Capital assets and other assets	1,343,821	5,958,914
Operating loss carryforwards	<u>33,645,551</u>	<u>40,351,898</u>
Total gross future income tax assets	36,177,790	47,606,414
Valuation allowance	<u>(36,177,790)</u>	<u>(47,975,406)</u>
Net future income tax liability	<u>\$ -</u>	<u>\$ (368,992)</u>

As at September 30, 2004, the Company has accumulated non-capital loss carryforwards for tax purposes of approximately \$65.2 million in Canada and US \$23.4 million in the U.S., which can be applied to reduce income taxes otherwise payable. A valuation allowance has been recorded against the future tax assets, as the Company cannot demonstrate that it is more likely than not that these assets will be realized by the application of these losses to reduce or eliminate taxes on taxable income during the carry forward periods.

These losses expire as follows:

	Canada (CND \$)	U.S. (US \$)
2005	\$ 300,000	\$ -
2006	600,000	-
2007	1,600,000	-
2008	1,000,000	3,100,000
2009	25,800,000	2,300,000
2010	17,500,000	1,600,000
2011	18,400,000	1,500,000
Thereafter to 2022	\$ -	\$ 14,900,000

**PROPRIETARY INDUSTRIES INC.
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23. COMMITMENTS

a) Land Lease

Thunder Bay Golf Dome ("TB Dome")

TB Dome leases land for its golf center. The land lease ends on March 31, 2017 but at the option of the Company, it may be terminated on March 31, 2012 provided the Company provides one year's written notice on or before March 31, 2011 of its intention to terminate the lease. Lease payments are \$4,000 per month until March 1, 2007. For the period April 1, 2007 to March 1, 2012 the lease payments shall increase by a negotiated or arbitrated amount, subject to the increase not exceeding 10% of the \$4,000 per month prior lease payment. For the period April 1, 2012 to the conclusion of the lease, the rent shall increase by a negotiated or arbitrated amount, subject to the increase not exceeding 5% of the prior period's monthly lease payment.

The commitment table in item f) below assumes there are no lease payment increases during the term of the lease and an early lease termination occurs.

b) Management Contract

Thunder Bay Golf Dome

The operations and management of the TB Dome are carried out through a management agreement with a third party. The Company pays a management fee of \$5,000 per month, and the management agreement may be terminated by either party upon sixty days prior written notice or upon the sale of the TB Dome.

The commitment table in item f) below assumes the contract runs for a term of three years with no management fee increase during this assumed term.

c) Consulting Agreement

Effective March 17, 2003, the Company entered into the agreement with APG Capital Services Corp. ("APG") (the "APG Agreement") described in Note 5, under which APG would provide various management advisory services to the Company. This APG Agreement was subsequently amended effective April 15, 2004. The fees payable to APG include a monthly retainer fee, which since August 2004 has been \$23,000 plus GST, and additional fees upon the closing of certain individual transactions as approved by the Board of Directors or its Executive Committee. These additional fees are comprised of: (a) a percentage of each gross transaction value in accordance with a sliding scale from 6% to 2% as transaction value increases, plus (b) \$500,000, less all retainer fees paid to APG from April 15, 2004 until the closing of a transaction involving the Company as a whole. The APG Agreement is for a term of 18 months from execution and continues thereafter until terminated by APG or the Company. The APG Agreement may be terminated by APG prior to the end of the term with 30 days written notice. The engagement of APG may be terminated by the Company prior to the end of the term upon payment of a lump sum cancellation fee equal to the sum of the retainer fees remaining to be paid during the term of the APG Agreement. The transaction involving the Company as a whole (refer to Note 28(e)) occurred on December 6, 2004, at which time APG was paid \$236,520 representing the balance of their fees then due. Accordingly, no further payments are payable by the Company to APG and the services of APG were terminated on December 6, 2004. As at September 30, 2004 the remaining retainer fees to be paid to APG to the date of the termination of their services as aforesaid was \$46,000.

Under the APG Agreement, APG also provides the services of the Executive Vice President of the Company. The Executive Vice President of the Company, who is a principal of APG, receives a retainer fee of \$22,000 per month directly from the Company plus he is entitled to receive from APG one-sixth of all transaction or other fees received by APG from the Company pursuant to the APG Agreement. Notwithstanding the termination of the APG Agreement as described above, the Company has approved the continuation of the services of the Executive Vice President of the Company, which services may be terminated by either party upon 14 days prior written notice.

d) Employee Stock Purchase Plan

The Company has established an Employee Stock Purchase Plan which allows directors, officers and certain eligible employees to purchase the Company's shares under an arrangement where the Company will issue one share for the benefit of the employees for each share purchased. The maximum benefit available under the plan for any individual is \$100,000 per year. In May 2004, the Board of Directors suspended the Plan. At the time of suspension of the Plan, no employees were eligible to exercise stock purchases under the Plan (see Note 18).

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23. COMMITMENTS (continued)

e) Expense Reimbursement

As disclosed in Note 28(e), the Company is committed to reimburse PPI Acquisition Corp. for certain expenses up to a maximum amount of \$450,000 plus GST.

f) Summary

A summary of the Company's above commitments for the next five years based on the assumptions noted above is:

	Land Lease	Management Contract	Consulting Agreement	Expense Reimbursement	Total
2005	\$ 48,000	\$ 60,000	\$ 46,000	\$ 450,000	\$ 604,000
2006	48,000	60,000	-		108,000
2007	48,000	60,000	-		108,000
2008	48,000	-	-		48,000
2009	48,000	-	-		48,000
thereafter	360,000	-	-		360,000
	\$ 600,000	\$ 180,000	\$ 46,000	\$ 450,000	\$ 1,276,000

24. FINANCIAL INSTRUMENTS

Risk Management

The Company does not utilize derivative financial instruments to manage various types of risks. The Company is exposed to the following risks related to financial assets and liabilities:

(i) Interest Rate Risk

The Company maintains its short-term deposits in instruments that are redeemable after 30 days without penalty, thereby reducing its exposure to interest rate fluctuations thereon. At September 30, 2004 the long-term debt obligation of the Company has a maturity of less than one year and is subject to annual renewal. While this reduces the risk associated with interest rate decreases it does increase the risk associated with interest rate increases, which in light of the amount of the long-term debt at September 30, 2004, is not considered a material exposure. Other interest rate risks on the Company's September 30, 2004 debt obligations are not considered material.

(ii) Credit Risk

Credit risk arises from the possibility that the entities to which the Company provided products and services may experience difficulty and be unable to fulfill their obligations. The Company mitigated this risk of credit loss through the diversification of its existing portfolio and limiting its exposure to any one entity. Credit assessments were conducted in respect of new entities/borrowers.

Accounts receivable (trade and short-term notes), notes receivable and long-term investments are assessed on a regular basis by management to ensure the credit worthiness of debtors and ultimate collections.

(iii) Foreign Exchange Risk

The Company is exposed to risks arising from fluctuations in foreign exchange rates and the volatility of those rates. At September 30, 2004 the Company's primary exposures related to U.S. dollars held on deposit and advances to U.S. subsidiaries and entities.

(iv) Fair Value

The fair value of the majority of the Company's financial assets and liabilities approximate their recorded values at September 30, 2004, as the fair value is determined to be the market or exchange value of the assets or liabilities. Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect estimates.

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24. FINANCIAL INSTRUMENTS (continued)

(v) Summary of Significant Financial Instruments

The significant financial instruments of the Company, their carrying values and the exposure to US dollar denominated monetary assets and liabilities, as of September 30, 2004 are as follows:

	Total	US \$ Denominated
Cash and short-term deposits	\$ 30,105,300	9,679
Accounts receivable, trade	413,903	-
Notes receivable	1,057,277	811,125
Accounts payable and accrued liabilities	4,701,682	490,673
Notes payable	892,489	190,951
Long term debt	605,200	-

25. LITIGATION AND CONTINGENCIES

In addition to the matters referred to in (k) below, the litigation and contingencies are:

(a) The Lodge at Waterton Lakes

The Company's subsidiary, The Lodge at Waterton Lakes Inc., and The Lodge at Waterton Lakes Limited Partnership (collectively "Waterton") that owned and operated the hotel was sued by the Royal Trust Corporation of Canada for foreclosure on its first mortgage, which foreclosure was granted by judicial sale. Also named in the lawsuit were certain guarantors of the loan secured by this mortgage. These guarantors have alleged that the Company assumed their obligations pursuant to the guarantees. The Company believes it has valid defenses to this claim.

(b) Waterton

The original unit-holders and shareholders of Waterton commenced an action against the Company and Waterton for non-performance on the \$650,000 third mortgage incurred on the acquisition of Waterton. The Company believes a settlement will be reached in this matter and that adequate provision has been made in the accounts for this matter (see Note 16).

(c) Mr. Theodor Hennig

Mr. Hennig was formerly the Chief Financial Officer of the Company and its publicly traded subsidiaries, Canadian Rocky Mountain Properties Inc. ("CMP") and Newmex Minerals Inc. Mr. Hennig initially took a leave of absence but after further allegations were brought forward against him by the Alberta Securities Commission, his employment was terminated by the Company. The Company believes that it had cause to terminate the employment. On August 21, 2002 Mr. Hennig was one of several parties subject to an interim Cease Trade Order in securities and this order was extended on September 5, 2002 and remains in effect on the date of these financial statements. Mr. Hennig attempted to exercise 50,000 stock options of CMP in September of 2002. CMP declined the request on the basis that it would have violated securities laws as a result of the cease trade order in effect. Mr. Hennig has since brought an action for damages, including punitive damages, in the amount of \$50,000 against CMP and Proprietary, resulting from the failure of CMP to issue the shares. Proprietary has agreed to indemnify the purchaser of CMP (see Note 21) for any losses in respect of this claim. On June 18, 2004, the Court ruled in favor of Mr. Hennig's motion for summary judgment and ordered CMP to issue 50,000 shares of CMP upon receipt of \$37,500 from Mr. Hennig. The Company has filed an appeal of the Court's decision.

(d) Mr. Peter Workum, Mr. Theodor Hennig, Cheshire Capital Inc., Lexington Capital Ltd., Ashland Holdings Corp., Strategic Investments Fund, Mr. Pedro Wick and Mr. Gilbert Schoeni, officers of Cofima Finanz AG

The Company commenced an action in Alberta against these parties alleging a breach of fiduciary duty, undisclosed and improper payment of commissions to offshore companies beneficially owned and controlled by the executive officers of the Company, breach of trust, negligence, loss of reputation, and debt. The claim seeks an accounting and judgment against the defendants for the full amount of such commissions, general damages in the amount of \$5 million, repayment of the debt, and punitive damages of \$1 million together with interest and costs. Partial default judgment has been entered against Ashland, Strategic, Cheshire, as well as Messrs. Wick and Schoeni. In May 2004 the Company received \$382,819 representing some of the proceeds from the aforesaid partial judgment default. The Company expects to receive additional proceeds from the disposition of securities each of these aforesaid companies hold, including shares in the Company. Lexington Capital Ltd. also has been noted in default. In addition, the Company's US subsidiary, EnerGCorp, Inc., has filed a claim against Mr. Workum in Arizona alleging that Mr. Workum received unauthorized sums from EnerGCorp, Inc. and directed EnerGCorp, Inc. to pay his personal expenses.

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25. LITIGATION AND CONTINGENCIES (continued)

(d) Mr. Peter Workum, Mr. Theodor Hennig, Cheshire Capital Inc., Lexington Capital Ltd., Ashland Holdings Corp., Strategic Investments Fund, Mr. Pedro Wick and Mr. Gilbert Schoeni, officers of Cofima Finanz AG (continued)

The litigation involving Mr. Workum is complex due to the number of jurisdictions involved. The commissions paid to entities believed to be controlled by Mr. Workum individually or together with Mr. Hennig totaled approximately \$5,100,000 for the period July 2, 1998 through September 9, 2001. In addition management is of the opinion, that Mr. Workum and entities believed to be in his control, owe the Company and its subsidiaries \$4,122,641 in outstanding loans and advances. Mr. Workum was also the recipient of a payment of \$302,731 during the year ended September 30, 2002 from the Company's profit sharing plan. It is management's opinion that these amounts should be recoverable as the restated financial statements have shown that no profits were available for distribution under the plan.

Mr. Workum filed a counterclaim in Arizona against the Company, EnerGCorp, Inc. and several individuals who previously acted as directors or officers of the Company or one of the Company's subsidiaries. His counterclaim was for, among other things, breach of contract, unpaid wages, wrongful termination, tortuous interference and defamation. The Company's motion to strike the counterclaim was successful. The Arizona Court gave Mr. Workum until August 15, 2004 to re-file his counterclaim, which he did, claiming similar relief against a number of parties. The Company may be responsible for the costs of defending the counterclaim against some of these parties.

In May 2004 Mr. Workum filed a claim against certain former and present directors and/or officers of the Company. The Company will be responsible for defending these parties against Mr. Workum's claim.

Mr. Hennig has also filed a counterclaim against the Company in Alberta seeking damages for wrongful dismissal of \$475,000, unspecified damages representing the loss of employment benefits for a period of twenty-four months, \$777,000 in unpaid salaries for 2000 and 2001, and other damages in the amount of \$800,000 plus interest and costs. Mr. Hennig's claim for salary is in addition to consulting fees of \$315,670 paid to his professional corporation during the period in question and the commissions referred to above paid to an entity believed to be controlled by Mr. Workum and Mr. Hennig. Mr. Hennig also received payment from the Company's profit sharing plan during the year-ended September 30, 2002 in the amount of \$274,262. It is management's opinion that these amounts are recoverable from Mr. Hennig as the restated financial statements demonstrate that no profits were realized.

Mr. Workum has also filed a counterclaim in Alberta seeking a "make-up payment" for unpaid compensation of \$3,050,000, comprised of salary arrears of \$500,000 and 500,000 shares of the Company, damages for wrongful dismissal of \$600,000, and other damages in excess of \$1,000,000.

Management is of the opinion that the counterclaims made by Mr. Workum and Mr. Hennig are without merit. The Company will vigorously defend its position. The outcome of these actions cannot be reasonably determined.

(e) Sulphur Corporation of Canada Ltd. ("Sulphur")

Sulphur was previously placed under protection of the *The Company Creditors Arrangement Act* ("CCAA") and the Company was required to cover the costs of the CCAA actions. The total estimated net outstanding liabilities of Sulphur at the time exceeded \$8 million. CCAA proceedings have not been pursued, but neither Sulphur nor any creditor has taken formal steps to put Sulphur into bankruptcy. Proprietary appointed a receiver under its security over the assets of Sulphur. Management does not anticipate any losses beyond those already funded and may recover certain amounts paid into court from payments that had been made to the previous management of Sulphur.

In October 2004 Proprietary was served with a Writ of Summons and Statement of Claim filed in the Supreme Court of British Columbia as Action No. C4 1647. F & M Installations Ltd. ("F & M") is claiming \$3.9 million plus damages from Proprietary in respect of services performed by F & M for Sulphur Corporation of Canada Ltd. (now in receivership). On the basis of the information currently available to Proprietary, it believes that this claim is without merit and it will defend this position. The outcome of this matter cannot be determined at this time.

(f) International Commodity Logistics Inc., William Gartner and Norman Thiede

This is a claim for breach of contract and/or breach of duty of care. The plaintiffs allege that the defendants breached their duty to them, by failing to make investments in the defendant, Sulphur Corporation of Canada (in which the plaintiffs were shareholders). Sulphur is now in receivership. The plaintiffs seek \$20 Million. An amended statement of claim was filed on March 1, 2004, which has not been served. The Company has not had contact with the plaintiffs. The Company believes this claim is totally without merit but the outcome cannot be determined at this time.

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25. LITIGATION AND CONTINGENCIES (continued)

(g) Global Hydrocarbon Corporation and Roderick Mackenzie

This is a claim for breach of contract and/or breach of duty of care. The plaintiffs allege that the defendants breached their duty to them, by failing to make investments in the defendant, Sulphur Corporation of Canada (in which the plaintiffs were shareholders). Sulphur is now in receivership. The plaintiffs seek \$2 Million. A statement of claim was filed on March 2, 2004, which has not been served. The Company has not had contact with the plaintiffs. The Company believes this claim is totally without merit but the outcome cannot be determined at this time.

(h) Chateau Hotels

The Company previously had loaned \$582,419 to Chateau Hotels and Resorts Inc. ("Chateau") (see Note 6). A company related to Chateau is claiming that it is owed a total of approximately \$900,000 for services performed pursuant to an oral agreement. The company related to Chateau has requested payment of the balance and management has refused. The company related to Chateau has filed a statement of claim and the Company has filed a claim against Chateau for the balance of the note plus interest. The outcome of this matter is not determinable at this time.

(i) COFIMA Finanz AG

COFIMA Finanz AG ("COFIMA") alleged that they have acted as the Company's agent in connection with several financings previously completed on a private placement basis. COFIMA demanded payment for unpaid commissions related to several financings completed from October 5, 1999 through December 13, 2001. It has claimed that it was owed up to \$500,000 in commissions in connection with the financings. COFIMA has admitted that many things were agreed on verbally and that it was agreed that COFIMA would receive three offshore companies (holding securities and cash) in lieu of consideration for the above commissions. The Company does not own any offshore companies. COFIMA owes the Company \$906,645 plus interest. Management has learned that COFIMA has become bankrupt and is no longer carrying on business. Accordingly, the Company has included this receivable in its provision for uncollectible amounts (see Note 4(A)). It is management's opinion that Cofima's claim is totally without merit. The outcome of this matter is not determinable at this time. Additionally, the Company has filed a Statement of Claim in Alberta with respect to the funds it is owed by COFIMA.

(j) Hudson & Company et al ("Hudson")

The Company brought an action in September 2003 against Hudson, the former auditors of the Company, alleging breach of contract, negligence, and breach of statutory duty in the performance of its audit of the Company's financial statements for the fiscal years 1998 to 2001, inclusive. Hudson is defending this claim and has brought a third party action against Peter Workum, Proprietary's former CEO, and Theodore Hennig, Proprietary's former CFO. Theodore Hennig is defending the third party claim and Peter Workum has until December 31, 2004 to do so. Proprietary intends to vigorously pursue its claims against Hudson.

(k) Settled Litigation

During the current year the Company reached a settlement agreement with each of Amon Care, AG and Mr. Don Holmstrom, both being litigation described in the Company's consolidated financial statements at September 30, 2003. As the terms of these settlements are confidential further disclosure of the settlement terms is inappropriate. Subsequent to year end, the Company reached a settlement agreement with United Industrial Services Inc. et al of the litigation described in the Company's September 30, 2003 consolidated financial statements, for \$1.79 million. Included in accounts payable and accrued liabilities at September 30, 2004 is a provision for this settlement.

(l) Provisions for uncollectible amounts

The Company is pursuing collection on all amounts due as described in Notes 4 and 6 to the extent practical. Any recovery will be recognized as income in the year of collection.

(m) Directors and officers contingency

The Company has provided indemnity agreements to its officers and directors, and as well, it has provided indemnification to its directors, officers and employees pursuant to the Company's by-laws and the *Canada Business Corporations Act*. In furtherance of the Company's indemnification to its directors and officers against claims and liabilities that may arise as a result of their association with the Company, the Company has put \$5 million into an in-trust account, which account and funds are subject to an agreement as to their utilization. These funds comprise the restricted cash deposits in the consolidated balance sheet (see Note 7).

**PROPRIETARY INDUSTRIES INC.
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25. LITIGATION AND CONTINGENCIES (continued)

(n) Employee retention incentives

The Company has provided each of its employees, with the exception of its Chief Executive Officer and Executive Vice President, a retention incentive, whereby the employee is entitled to: (i) three months' salary upon a change of control (or similar type transaction) of the Company either prior to the termination of the respective employee's employment without cause, or within three months following the termination of the respective employee's employment without cause, and (ii) three months' salary on termination of the respective employee's employment without cause. Included in accounts payable and accrued liabilities at September 30, 2004 is a provision for item (i), which amounts were paid to the employees in December 2004 as a result of the transaction described in Note 28(e). As the actual amount and timing of payment (if any) that will ultimately be payable pursuant to item (ii) is unknown, no accrual for payment has been reflected in these consolidated financial statements.

26. RESTATEMENT OF FINANCIAL STATEMENTS IN YEARS PRIOR TO FISCAL 2002

Prior to issuing the consolidated financial statements for the year ended September 30, 2002, management completed a substantial examination of the financial statements reported in 2001 and prior. This was due to the investigation described in Note 2. As a result, in the consolidated financial statements for the year ended September 30, 2002 the Company reported significant restatements of the opening retained earnings (deficit) at October 1, 2001. The Company has reclassified as part of the deficit, the immaterial cumulative translation adjustment previously reported. The effect of these restatements is as follows:

Retained earnings, September 30, 2001 as previously reported	\$ 7,431,542
Correction of previous periods	(39,674,888)
Write-off of cumulative translation adjustment	26,199
Deficit, October 1, 2001	<u>\$ (32,217,147)</u>

27. CHANGES IN NON-CASH OPERATING BALANCES

Year ended September 30,	2004	2003
Mortgage loans held for resale	\$ -	\$ 6,267,955
Accounts receivable	437,782	(635,425)
Inventories	518,434	1,491,386
Prepaid expenses and deposits	290,623	970,279
Restricted cash, net	(4,279,012)	(413,553)
Other assets	77,006	-
Accounts payable and accrued liabilities	(3,348,271)	(2,170,128)
Bank indebtedness	-	(7,748,041)
Customer deposits	(276,173)	(352,801)
Income taxes payable	(132,595)	507,457
Deferred revenue	(242,492)	89,769
	<u>\$ (6,954,698)</u>	<u>\$ (1,993,102)</u>

28. SUBSEQUENT EVENTS

- a) In October 2004 the Company closed the sale of its Bancroft commercial plaza and remaining land (see Note 21(ii)) for gross sale proceeds of \$750,000. The title to the commercial plaza was transferred to the purchaser in October 2004 with title to the remaining land expected to be transferred in December 2004 upon the rezoning of the land.
- b) Subsequent to September 30, 2004 the Company sold one of its McGinty Landing condominium units and has signed an agreement for sale for another condominium unit. Gross sale proceeds will be approximately \$337,500. The net cash proceeds arising from these two sales will be used toward repayment of the debt thereon.
- c) Subsequent to September 30, 2004, Newmex Minerals Inc. ("Newmex"), a subsidiary of the Company, was provided a ninety day notice by the TSX Venture Exchange ("TSX") of the TSX's intention to transfer Newmex's listing to the NEX, due to Newmex's deficiencies with respect to TSX Tier 2 Maintenance Requirements. These deficiencies primarily relate to working capital and activity for a company classified as a Mining Issuer.

Further, the TSX has advised Newmex that it is not in compliance with the requirement to have an audit committee comprised of at least three directors, the majority of whom are not Newmex employees, control persons, or officers of Newmex or any of its associates or affiliates. Newmex feels it has now remedied this deficiency.

PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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28. SUBSEQUENT EVENTS (continued)

- d) As described in Note 25(k), the Company reached a settlement agreement on the United Industrial Services Inc. et al litigation for \$1.79 million. Included in accounts payable and accrued liabilities at September 30, 2004 is a provision for this settlement.
- e) On December 6, 2004 PPI Acquisition Corp. ("PAC") announced that 35,336,231 common shares of Proprietary, or approximately 59.06% of the issued and outstanding common shares of Proprietary, were deposited to the offer made by PAC on October 29, 2004 for all of the issued and outstanding Proprietary common shares at a per share price of CDN \$0.64 in cash. PAC has subsequently announced that it has taken up and paid for the deposited shares, and in the course of taking up and paying for the deposited shares, 8,788,387 Proprietary common shares (representing approximately 14.69% of the issued and outstanding Proprietary common shares) were immediately sold pursuant to private placement agreements entered into following the expiry of the offer, with unrelated arm's length parties. PAC now holds 26,572,884 Proprietary common shares representing approximately 44.41% of the issued and outstanding Proprietary common shares.

Pursuant to the October 22, 2004 Support Agreement between Proprietary and PAC, Proprietary agreed to reimburse PAC's reasonable out-of-pocket fees and expenses incurred in connection with matters contemplated in the Support Agreement (i.e. the bid offer), up to a maximum amount of \$450,000 plus GST. Proprietary also agreed to pay a \$1,000,000 break fee under certain circumstances described in the Support Agreement, which break fee will not be payable as a result of the completion and take-up of the Proprietary shares as previously described.

29. SEGMENTED INFORMATION

Most of the Company's operations comprising separate business segments in prior periods have been disposed of and are now reflected in discontinued operations. The continuing operations of the Thunder Bay Golf Dome and the rental income derived from the McGinty Landing condos do not represent operating segments. Accordingly, the Company has only one reportable business segment, that being its operations as a merchant bank. The Company's operations are carried on in the following geographic locations:

		2004		
		Canada	USA	Consolidated
Total revenues	\$	6,547,560	\$ 6,242,495	\$ 12,790,055
Operating profit		430,824	10,487,077	10,917,901
Amortization		269,130	53,642	322,772
Interest expense		171,543	217,722	389,265
Write-downs		3,436,817	513,233	3,950,050
Income (loss) before income taxes and non-controlling interest		(3,446,666)	9,702,480	6,255,814
Income taxes and non-controlling interest		(591,385)	479,697	(111,688)
Discontinued operations income (loss)		565,304	(65,054)	500,250
Net income (loss)	\$	(2,289,977)	\$ 9,157,729	\$ 6,867,752
Identifiable assets	\$	38,672,389	\$ 1,074,974	\$ 39,747,363
Capital assets	\$	963,382	\$ -	\$ 963,382

PROPRIETARY INDUSTRIES INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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29. SEGMENTED INFORMATION (continued)

	2003		
	Canada	USA	Consolidated
Total revenues	\$ 792,330	\$ 2,089,434	\$ 2,881,764
Operating profit (loss)	(5,060,933)	597,845	(4,463,088)
Amortization	177,961	252,114	430,075
Interest expense	1,344,112	428,302	1,772,414
Write-downs	145,262	1,682,279	1,827,541
Loss before income taxes and non-controlling interest	(6,728,268)	(1,764,850)	(8,493,118)
Income taxes and non-controlling interest	(193,463)	107,741	(85,722)
Discontinued operations loss	(3,346,155)	(7,129,161)	(10,475,316)
Net loss	\$ (9,880,960)	\$ (9,001,752)	\$ (18,882,712)
Identifiable assets	\$ 79,023,331	\$ 35,657,009	\$ 114,680,340
Capital assets	\$ 41,831,239	\$ 403,734	\$ 42,234,973

Corporate Information

Board of Directors

Stephen C. Akerfeldt
Patrick J. Lavelle
William J.H. Ostrander
A. Murray Sinclair

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The SWX Swiss Exchange
Trading Symbol PPI

Officers

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President & CEO

Graham S. Garner
Executive Vice President

William H. Berezan
Chief Financial Officer

Shirley J. Farr
Corporate Secretary

Auditors

Mintz & Partners, LLP
North York, Ontario

Solicitors

Bennett Jones LLP
Calgary, Alberta

Registrar & Transfer Agent

Computershare Trust
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